DOCUMENT RESUME

ED 118 279 RC 006 187

TITLE	Rural Development: Part 4, S. 2223--The Consolidated Farm and Rural Development Act and Amendment No. 153 (To S. 1483), to Establish the Rural Community Development Bank. Hearings Before the Subcommittee on Rural Development of the Committee on Agriculture and Forestry, United States Senate, 92d Congress, 1st Session, July 23; September 21-24, 1971.
INSTITUTION	Congress of the U.S., Washington, D.C. Senate Committee on Agriculture and Forestry.
PUB DATE	71
NOTE	678p.; Some tables may not reproduce well; Related hearings are RC 006 184-190
EDRS PRICE	MF-$1.33 HC-$36.83 Plus Postage
DESCRIPTORS	*Agriculture; *Community Development; *Credit (Finance); Documentation; *Federal Legislation; Policy Formation; Public Opinion; *Rural Development
IDENTIFIERS	Amendment to S 1483; *Consolidated Farm Rural Development Act

ABSTRACT

Transcripts of Senate hearings on S. 2223 (the Consolidated Farm and Rural Development Act) and on Amendment No. 153 (to S. 1483) to establish the rural community development bank are presented in this document. In addition to some 25 miscellaneous documents, statements of representatives from municipal, state, and national organizations are presented in conjunction with the testimony of State and Federal legislators. Among the miscellaneous documents presented are: (1) S. 2223 of the 92d Congress; (2) Section-by-Section Analysis of S. 2223; (3) Amendment No. 153 (to S. 1483); (4) Comparison of S. 2223 and Amendment by Senator Pearson; (5) Increase in Costs of Water and Sewer Facilities; (6) Press Release on Environmental Protection Agency Regulations on Solid Waste Management Needs; (7) Independent Bankers Association Statement on Insured Agriculture Loans; (8) Resolutions Adopted at Regional Meetings of the National Rural Electric Cooperative Association; (9) Paper on Rural Development by W. C. Motes; (10) Information on Nonmetropolitan District Planning; (11) concerted Services in Training and Education in Small Towns and Rural Areas; (12) Small Business Administration Loans; (13) Report from the Department of Agriculture on S. 2223; (14) Amendments Proposed by the National Governor's Conference and Comparison with S. 2223. (JC)

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RURAL DEVELOPMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT

OF THE

COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE

NINETY-SECOND CONGRESS
FIRST SESSION

ON

S. 2223

THE CONSOLIDATED FARM AND RURAL DEVELOPMENT ACT

AND

AMENDMENT NO. 153 (TO S. 1483), TO ESTABLISH THE RURAL COMMUNITY DEVELOPMENT BANK

PART IV

JULY 23; SEPTEMBER 21, 22, 23, AND 24, 1971

Printed for the use of the Committee on Agriculture and Forestry

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RURAL DEVELOPMENT

FRIDAY, JULY 23, 1971

U.S. Senate,
Subcommittee on Rural Development,
of the Committee on Agriculture and Forestry,
Washington, D.C.

The committee met, pursuant to recess, at 9:15 a.m., in room 6202 New Senate Office Building, Hon. Hubert H. Humphrey, chairman of the subcommittee, presiding.

Present: Senators Humphrey (presiding) Talmadge, Allen, Curtis, and Bellmon.

Also present: Senator Aiken.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator Humphrey. We will proceed.

We have as our first witness the distinguished Senator from Alabama. But first I would like to make a very brief oral statement, which will be followed by the statement of the Senator from Georgia.

This morning we open a series of hearings on two pieces of legislation designed to give an economic transfusion to rural America and begin the overdue process of revitalizing our rural countryside.

Most of you here are well aware of the need.

Rural America is becoming short of people. Some 600,000 a year are leaving for the cities, including rural America's finest minds and young people with much to contribute.

Rural America is short of industry.

Rural America is short of jobs.

Rural America is short of adequate housing.

Rural America is short of doctors and hospitals and decent health care.

Rural America is short of adequate transportation.

Rural America is short of many of the programs and facilities it needs for a truly fair deal in this Nation.

Rural America is getting shortchanged.

Some 73 percent of our people now live on just 2 percent of the land.

People are leaving rural America, and so is capital, because we have permitted rural areas to decay and deteriorate.

Industry is not going to move to rural areas if schools are inferior, if there is inadequate electric and telephone service, if the nearest health care facility is 50 or 100 miles away.

We are becoming increasingly familiar with urban poverty, but rural poverty remains disproportionately high.

Two-thirds of our substandard housing is in rural America, and nearly 20 million rural houses lack plumbing.

Infant mortality in rural areas is higher than the national average. Education is of a lower quality.

What are we doing about it? What are we doing to promote better balanced growth between rural and urban America?

The answer, unfortunately, is very little.

The Federal Government operates some 80 different loan programs, but none of them provide credit for private economic enterprise of all kinds in rural communities.

Local banks often are limited in extending credit by the size of their assets and the volume of their deposits.

The legislation we will be considering is designed to revive and rehabilitate an economically sick patient—rural America.

First is an amendment by Senator Pearson of Kansas, to the pending Farm Credit Act. It would set up a rural community development bank to provide loan money for economically depressed rural areas.

The second is S. 2223, which I introduced with Senator Herman Talmadge, chairman of the Agriculture and Forestry Committee, and a majority of the members of the committee. It is the Consolidated Farm and Rural Development Act, which would greatly expand rural credit for both public and private investment.

The intent of the legislation before us is to give rural communities the economic bootstrap they presently lack . . . to give them the tools and the resources for new businesses and new payrolls, to develop recreation facilities. To finance the face-lifting of a thousand small-town main streets, to build water and sewer facilities, industrial parks, schools, and libraries and other needed public and private facilities.

It is designed most of all to make rural America once again the vital, attractive, prosperous place it should be and can be.

I will just conclude by saying that I spent Wednesday of this week with the National Association of County Officials. And in my visits with a number of the country officers I found a tremendous interest, and a great expression of need of what these proposals offer.

(S. 2223, the amendment, and analyses are as follows:)

92d CONGRESS
1st Session

S. 2223

IN THE SENATE OF THE UNITED STATES

July 7, 1971

Mr. Humphrey (for himself, Mr. Talmadge, Mr. Aiken, Mr. Allen, Mr. Anderson, Mr. Bayh, Mr. Bellmon, Mr. Burdick, Mr. Byrd of West Virginia, Mr. Cannon, Mr. Church, Mr. Cooper, Mr. Cranston, Mr. Eastland, Mr. Ervin, Mr. Gambrell, Mr. Gravel, Mr. Harris, Mr. Hartke, Mr. Hollings, Mr. Hughes, Mr. Jackson, Mr. Jordan of North Carolina, Mr. Jordan of Idaho, Mr. Kennedy, Mr. Magnuson, Mr. McGee, Mr. McGovern, Mr. McIntyre, Mr. Metcalf, Mr. Mondale, Mr. Moss, Mr. Muskie, Mr. Nelson, Mr. Pearson, Mr. Pell, Mr. Randolph, Mr. Ribicoff, Mr. Sparkman, Mr. Spong, Mr. Stennis, Mr. Stevens, Mr. Tunney, and Mr. Young) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

---

A BILL

To amend the Consolidated Farmers Home Administration Act of 1961, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—AMENDMENTS TO THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

Sec. 101. Section 301 (a) of the Consolidated Farmers Home Administration Act of 1961 is amended to read as follows:

II

★(Star Print)

"(a) This title may be cited as the 'Consolidated Farm and Rural Development Act'."

SEC. 102. The first sentence of section 306(a)(1) of the Consolidated Farmers Home Administration Act of 1961 is amended to read as follows: "The Secretary is also authorized to make or insure loans to associations (including corporations not operated for profit), cooperatives that are unable to obtain credit from the banks for cooperatives, public and quasi-public agencies, and others to provide for the acquisition and improvement of lands, the application or establishment of soil conservation practices, provision of marketing and other services, shifts in land use, the conservation, development, use, and control of water, the processing, manufacture, and finishing of products from raw materials and intermediate products, and the installation, improvement, equipment, or operation of drainage, waste disposal, or other rural community development projects, and recreational developments, all primarily serving or providing employment for farmers, ranchers, farm tenants, farm laborers, and other rural residents, and to furnish financial assistance or other aid in planning projects for such purposes."

SEC. 103. The first sentence of section 306(a)(2) of the Consolidated Farmers Home Administration Act of 1961 is amended to read as follows: "The Secretary is authorized to make grants aggregating not to exceed $300,000,000 in any fiscal year to finance specific projects for—

"(i) works for the development, storage, treatment, purification, or distribution of water or the collection, treatment, or disposal of waste, or

"(ii) other rural community development projects in rural areas."

SEC. 104. The first sentence of section 306 (a) (3) of the Consolidated Farmers Home Administration Act of 1961 is amended to read as follows: "No grant shall be made under paragraph (2) of this subsection in connection with any project unless the Secretary determines that the project (i) will serve a rural area which is not likely to decline in population if such project is carried out below that for which the project was designed, (ii) is designed and constructed so that adequate capacity will or can be made available to serve the present population of the area to the extent feasible and to serve the reasonably foreseeable growth needs of the area, or (iii) is necessary for orderly community development consistent with a comprehensive community water, sewer, or other development plan of the rural area and not inconsistent with any planned development under State, multijurisdictional, county, or municipal plans approved as official plans by competent authority for the area in which the rural community is located, and the Secretary shall establish regulations requiring the submission of all applications for financial assistance under this section to the multijurisdictional agency and county or municipal government having jurisdiction over the area in which the proposed project is to be located for review and comment concerning among other considerations, the effect of the project upon the areawide goals and plans of such agency or government within a designated period of time. No loan under this section shall be made that is inconsistent with such multijurisdictional planning and development district areawide plan."

SEC. 105. Section 306 (a) (7) of the Consolidated Farmers Home Administration Act of 1961 is amended to read as follows:

"(7) (A) Rural areas for the purposes of this section shall not include any area in any city or town which has a population in excess of thirty-five thousand inhabitants, nor any urbanized or urbanizing area immediately adjacent thereto.

"(B) The term 'rural community development project' includes, but is not limited to, projects, programs and activities which—

"(1) establish and improve public works, public service, and development facilities;

"(2) encourage private investment in, and promote the establishment and expansion of, industrial, agricultural, and commercial enterprises;

"(3) prevent conditions of excessive unemployment and underemployment, alleviate unemployment caused by loss or curtailment of large industries or governmental activities, generate increased employment opportunities, and assist in manpower development;

"(4) assist in generating increased personal and corporate income;

"(5) further the economic development and growth potential of underdeveloped areas and help such areas to help themselves achieve lasting improvement;

"(6) improve the quality and accessibility of rural community facilities and services;

"(7) stem outmigration of families, labor, and capital from rural areas and encourage migration to such areas;

"(8) assist in the solution of farm, home, and community problems;

"(9) promote the conservation, development, and proper utilization of human and natural resources;

"(10) encourage the solution of problems of wide geographic significance;

"(11) establish and improve educational facilities and encourage the development of improved educational methods;

"(12) establish and improve land, water, and air transportation systems and services for goods and passengers;

"(13) assist in the solution of problems related to law enforcement activities;

"(14) enhance domestic prosperity by the establishment of stable and diversified local economies and improved local conditions;

"(15) assist in the establishment of decent, safe, sanitary, and comfortable housing;

"(16) establish and improve health facilities and services and generally promote improved health and nutrition of residents of rural areas;

"(17) establish programs and projects of the type authorized under title I of the Demonstration Cities and Metropolitan Development Act of 1966; and

"(18) provide direct financial incentives to industry to create jobs in rural areas."

SEC. 106. (a) The first paragraph of section 331 of the Consolidated Farmers Home Administration Act of 1961 is amended by striking out everything beginning with

"Farmers Home Administration" and inserting the following:

"(1) Farm Development Administration and the Rural Enterprise and Community Development Administration, each of which shall be headed by an Administrator, appointed by the President, by and with the advice and consent of the Senate. Each such Administrator shall be subject to the supervision and direction of an Assistant Secretary of Agriculture-Rural Development Credit, who shall be additional to the Assistant Secretaries of Agriculture otherwise authorized by law and shall be appointed by the President, by and with the advice and consent of the Senate."

(b) Section 5315(11) of title 5, United States Code is amended to read as follows:

"(11) Assistant Secretaries of Agriculture (4)."

(c) Section 5316(4) of title 5, United States Code is amended to read as follows:

"(4) Administrator, Farm Development Administration, Department of Agriculture."

(d) Section 5316 of title 5, United States Code is amended by adding at the end thereof the following:

"(131) Administrator, Rural Enterprise and Community Development Administration, Department of Agriculture."

TITLE II—FEDERAL RURAL DEVELOPMENT CREDIT SYSTEM

SUBTITLE A—FINDINGS, PURPOSE, AND DEFINITIONS

SEC. 201. TITLE AND FINDINGS AND PURPOSE.—

(a) This title may be cited as the "Rural Development Financial Resources Act of 1971".

(b) The Congress hereby finds that—

(1) farming and forestry form the backbone of the rural economy; yet the community services and facilities and the income earning opportunities needed by farm people to increase their incomes and raise their quality of life are shared with all other residents living in rural areas and rural communities who must participate in their financial support. Adequately to raise farm family income and increase the accessibility to farm people of high-quality community facilities and services requires all the resources in local rural communities to be used at maximum effectiveness and efficiency; the conduct of forestry, industry, business, and commerce, as well as farming contributes to the jobs and income earning opportunities needed to maintain adequate rural facilities and services; and the receipt of adequate income is essential to improved human nutrition and family

living; the same circumstances are essential to expanding the service loads and hence the ability of rural electrification systems to pay overhead costs for service to farmers and repay indebtedness on Government loans. To attain these goals it is necessary to increase the investment of capital and level of business activity and quality of community facilities and services in rural areas and communities. Much of the needed investment must come in the first instance from outside of rural areas and communities.

It is the policy of Congress to meet a large part of the need for increased investment in rural areas by establishing a system of borrower-owned financial institutions that will be able to bring rural credit needs into effective contact with the great central money markets of the Nation;

(2) prosperous, productive, and attractive rural communities are essential to the well-being of farm families and of a free nation;

(3) a more general, better balanced geographic distribution of the Nation's population is essential to the prosperity, general welfare, and domestic tranquillity of the urban as well as the rural communities of the United States;

(4) a more general, better balanced geographic

distribution of profitable private economic enterprises, income earning opportunities, and high quality public community facilities, services, and public works is necessary to reverse the flow of population from rural to urban areas and achieve a more general, better balanced geographic distribution of the Nation's population;

(5) additional capital investment and financial resources are essential to bring to rural areas the private economic enterprises, public works, and community facilities and services necessary to achieve a more uniform geographic distribution of the Nation's population; and

(6) a banking system to complement the Farm Credit System and the Farmers Home Administration of the Department of Agriculture is urgently needed to provide such additional capital investment and financial resources in rural areas.

(c) It is therefore the purpose of this Act to provide for a permanent system of rural development credit banks and related financial institutions and services that will improve the income and well-being of urban as well as rural America by furnishing sound, adequate, and constructive credit, capital augmentation, and closely related financial resources and services to the residents of rural areas, corporations, agricultural producer organizations (except where able to obtain credit from banks for cooperatives under the Farm Credit Act of 1933 (12 U.S.C. 1134), other cooperatives, industrial, and business enterprises, quasi-public bodies, counties, municipalities, and other units of local general and special purpose government that will establish, construct, and operate private and public facilities, works, and services in rural areas and will provide remunerative employment to increasing numbers of rural residents. It is further the purpose of this Act to encourage borrower participation in the management, control, and ownership of a permanent system of credit for nonfarm enterprises and community public works, facilities, and services similar to the Farm Credit System.

SEC. 202. DEFINITIONS.—As used in this Act—

(1) The term "Rural Development Credit System" means—

(A) the participating rural development financial institutions and units of local general government as provided in subtitle C of this Act;

(B) the District Rural Development Credit Agencies provided for under subtitle D of this Act;

(C) the Regional Rural Development Credit Banks provided for under subtitle E of this Act;

(D) the Federal Rural Development Credit Agency provided for under subtitle F of this Act;

(E) the Federal Rural Development Investment Equalization Administration provided for under subtitle G of this Act; and

(F) the Federal Rural Development Credit Board provided for under subtitle H of this Act.

(2) The term "rural area" means any area within a State or the Commonwealth of Puerto Rico which is not part of or contiguous to any municipality having a population of thirty-five thousand or more according to the latest decennial census of the United States. The Rural Development Credit Board may by regulation, after consultation with the Director of the Office of Management and Budget, the Secretary of Agriculture, and the Secretary of Housing and Urban Development, broaden the definition of such term to include additional areas if the Board determines that such action, because of special circumstances applicable to such areas, is consistent with the purposes of this Act.

(3) The term "rural development purpose" means any project undertaken by any private industrial or business enterprise or by any State, regional, or local development authority, any public work project, or any community facility or service that contributes or will contribute substantially to the objectives of a balanced national growth policy as provided in section 901 (a) of the Agricultural Act of 1970 (PL 91–524), and the enhancement of any rural community

or rural area as a place to live and make a living. Such term specifically includes, but is not limited to, projects that provide increased employment or income for or directly benefit rural residents and that—

(A) establish and improve public works, public service, and development facilities;

(B) encourage private investment in, and promote the establishment and expansion of, industrial and commercial enterprises including but not limited to investor-owned and cooperative marketing and other service associations and enterprises;

(C) prevent conditions of excessive unemployment and underemployment, alleviate unemployment caused by loss or curtailment of large industrial or governmental activities, generate increased employment opportunities, or assist in manpower development;

(D) assist in generating increased personal and corporate income;

(E) further the economic development and growth potential of underdeveloped areas and help such areas to help themselves achieve lasting improvement;

(F) improve the quality and accessibility of rural community facilities and services;

(G) stem outmigration of families, labor, and capital from rural areas and encourage migration to such areas;

(H) promote the conservation, development and proper utilization of human and natural resources;

(I) establish and improve public educational facilities and encourage the development of improved educational methods;

(J) establish and improve land, water, and air transportation systems and services for goods and passengers;

(K) assist in the solution of problems related to law enforcement activities;

(L) enhance domestic prosperity by the establishment of stable and diversified local economies and improved local conditions;

(M) assist in the establishment of decent, safe, sanitary and comfortable housing;

(N) establish and improve health facilities and services and generally promote improved health and nutrition of residents of rural areas; and

(O) provide direct financial incentives to industry to create jobs in rural areas.

(4) The term "local general government" means the government of a municipality, county, or township as such terms are defined and used by the United States Bureau of the Census. Such term does not include independent school districts.

(5) The term "Regional Bank" means a Regional Development Credit Bank established under subtitle G of this title.

(6) The term "region," when used in connection with a Regional Bank, means the geographic area served by such bank.

(7) The term "Federal Rural Development Credit Board" means the body established under subtitle H of this title.

(8) The term "District Rural Development Credit Agency" means any financial institution of a multijurisdictional planning and development district of a State designated as a District Rural Development Credit Agency under subtitle D of this title.

(9) The terms "participating institution" and "Participating Rural Development Financial Institution" means any financial institution or local unit of general government designated as a participating institution in the Rural Development Credit System under subtitle C of this title.

(10) The term "Federal Rural Development Credit Agency" means the independent Government agency established under title F of this title.

(11) The term "Executive Director" means the head of the Federal Rural Development Credit Agency.

(12) The term "financial assistance" includes loans,

participation in loans, guarantee or insurance of loans, the purchase of legal obligations, and the discount or rediscount of any note, draft, or other obligation.

SUBTITLE B—BORROWERS AND AVAILABILITY OF LOANS

SEC. 301. AVAILABILITY OF RURAL DEVELOPMENT CREDIT.—In order to assist any individual, partnership, cooperative, corporation, nonprofit association, and any instrumentality of a State, county, municipality, or any unit of local general government (hereinafter in this title referred to as "borrower" or "potential borrower") to carry out a rural development purpose, such entities are eligible to borrow from, sell its financial obligations to, or to insure its obligations with the Rural Development Credit System institution in the area in which the rural development purpose is to be undertaken. Such financial assistance shall be subject to the provisions of this title and the rules and regulations of the Federal Rural Development Credit Agency and policies established by the Federal Rural Development Credit Board. Preference shall be given to potential borrowers who have demonstrated and who have an established record of financial stability.

SEC. 302. ELIGIBILITY.—The eligibility of potential borrowers to obtain assistance for carrying out rural development purposes shall be determined within the multijurisdictional planning and development district in which the rural development purpose is to be undertaken in accordance with criteria established by the District Rural Development Credit Agency located in such district. Such criteria shall be subject to the approval of the Regional Bank concerned, the rules and regulations of the Federal Rural Development Credit Agency, established pursuant to policies prescribed by the Federal Rural Development Credit Board. The potential borrower must demonstrate that the financial assistance applied for is not available from any other public or private credit source.

SEC. 303. TERMS AND CONDITIONS.—The terms and conditions under which assistance may be made available to borrowers in any region shall be established by the Regional Bank concerned, subject to the rules and regulations of the Federal Rural Development Credit Agency established pursuant to policies of the Federal Rural Development Credit Board. Such terms and conditions may vary depending on the rural development purpose for which loan proceeds are to be used.

SEC. 304. SECURITY.—Borrowers shall be required to provide the best available collateral for financial assistance made available under this Act, and may be allowed to demonstrate repayment ability and that factor shall be taken into consideration in determining whether any such assistance should be approved or disapproved. In determining the amount of security necessary for financial assistance to any applicant, a District Rural Development Bank Agency shall also take into consideration any grant or payment from the Federal or State Government, including any grant or payment under the provisions of this Act for which the borrower may qualify and obtain commitment with respect to the project involved in the loan application.

Sec. 305. Required Purchase of Capital Stock.—Each borrower, as a condition of loan approval, shall be required to purchase capital stock in the District Rural Development Credit Agency through which assistance is made in an amount (at par value) equal to not less than 5 per centum and not greater than 10 per centum of the amount of the loan, as determined by the Federal Rural Development Credit Board from time to time.

SUBTITLE C—PARTICIPATING RURAL DEVELOPMENT FINANCIAL INSTITUTIONS AND UNITS OF LOCAL GENERAL GOVERNMENT

Sec. 401. Designation.—Any National or State bank, savings institution, credit union, or other financial institution making loans in rural areas for rural development purposes, and any county, municipality, or other unit of local general government shall, upon application, be considered for designation as a Participating Rural Development Financial Institution, hereinafter in this Act referred to as a "Participating Institution."

Sec. 402. Functions of Participating Institution.—Any participating institution is authorized, subject to provisions of this title, the approval of the District Rural Development Credit Agency from which assistance is being sought, and subject to the rules and regulations of the Regional Bank concerned and the Federal Rural Development Credit Agency, established under policies adopted by the Rural Development Credit Board, to borrow from and to make loans for, or on behalf of, District Rural Development Credit Agencies, to make loans guaranteed or insured by the Regional Bank concerned, and to issue obligations for purchase by the District Rural Development Credit Agencies, and to perform such other duties as the District Rural Development Credit Agency concerned may delegate and the participating institution agrees to undertake.

Sec. 403. Endorsement by Participating Institution.—A participating institution shall endorse to the District Rural Development Credit Agency under which it operates such evidences of obligations as it shall sell to, insure or guarantee with, or discount with such Agency and shall assume full responsibility for the repayment of principal and interest represented by such obligation.

Sec. 404. (a) Purchase of Capital Stock.—A participating institution shall require the borrower of loans made for or on behalf of District Rural Development Credit Agencies, as a condition of loan approval, to subscribe to an amount of par value capital stock in the District Rural Development Credit Agency from which such financial assistance is obtained equal to not less than 5 per centum nor more than 10 per centum of the total proceeds of the loan. In addition, each participating institution shall, as a condition of its designation as a participating institution, maintain at all times a total ownership of capital stock in the District Rural Development Credit Agency under which it operates equal to at least one per centum of the amount outstanding on all loans and other obligations in which it has participated on behalf of such District Rural Development Credit Agency.

(b) Any of the institutions listed in section 401 which qualify as Participating Institutions are authorized to purchase voting stock of District Rural Development Credit Agencies authorized by this title.

(c) Any of the institutions listed in section 401 may qualify as "cooperating financial institutions" by participating in any loan or other obligation on behalf of the District Rural Development Credit Agency. Cooperating financial institutions shall not be required to maintain stock ownership as required in section 404 (a). Such institutions shall, however, be subject to all other rules, regulations, and requirements provided for participant institutions.

SEC. 405. GOVERNANCE OF PARTICIPATING AND COOPERATING INSTITUTIONS.—With respect to all loans and other obligations which a participating or cooperating institution shall process or otherwise handle for a District Rural Development Credit Agency, the policies, rules, and regulations, and procedures followed shall be in accordance with the rules and regulations established by such Agency and approved by the Regional Bank concerned. The designation of any institution as a participating institution may be canceled by the District Rural Development Credit Agency concerned, in accordance with rules and regulations established by the Regional Rural Development Credit Bank. Any participating institution whose designation has been canceled under this section may appeal the cancellation to the appropriate Regional Bank. The decision of the board of directors of such bank shall be final. The Regional Banks shall, in accordance with rules and regulations established by the Federal Rural Development Credit Agency, establish appropriate rules and regulations and review bodies to implement expeditious, orderly, and fair consideration of appeals filed by participants objecting to canceled designations or other matters related to their relationship to the Rural Development Credit System.

SEC. 406. CERTIFICATES OF PARTICIPATION.—Each participating institution shall be issued a certificate of participation embossed by the Rural Development Credit Board indicating on the face of such certificate (1) that the participant has been designated as an official Participating Rural Development Financial Institution of the Rural Development Credit System, (2) the date of certification, and (3) a statement in summary form of the powers and responsibilities of the participating institution. The application of an eligible institution for designation as a participating institution shall be forwarded to the District Rural Development Credit Agency along with its initial application to purchase capital stock. Such application shall be endorsed by the District Agency and forwarded to the Federal Rural Development Credit Agency through the appropriate Regional Rural Development Bank. The Executive Director will submit his recommendation for designation to the Federal Rural Development Credit Board for approval and issuance of certificate.

SUBTITLE D—DISTRICT RURAL DEVELOPMENT CREDIT AGENCIES

SEC. 501. (a) DESIGNATIONS AND CHARTERS.—Any financial agency of any multijurisdictional planning and development district of a State may make application to the Regional Bank serving the area in which such district is located for designation as a District Rural Development Credit Agency.

(b) The application filed under this section shall specify in general terms the objects for which the Federal charter will be used, the powers to be exercised under the charter, and the territory it proposes to serve. The application shall be signed by appropriate officials of the agency making the application and shall be accompanied by appropriate documents authenticating the legal status of the applicant and of the officials signing the application. A copy of the proposed charter, constitution, bylaws, and other pertinent instruments of the applicant shall accompany any application filed under this section.

(c) An application filed with any Regional Bank under this section shall be forwarded by such bank to the Executive Director together with the recommendations of the bank concerning the need for such a District Rural Development Credit agency to help provide adequate credit for rural development purposes in the area the applicant would serve. The Executive Director may for good cause shown deny any application for a charter.

(d) Upon the approval of the application of any financial agency of any multijurisdictional planning and development district of a State filed under this section, such agency shall be designated as a District Rural Development Credit Agency and be chartered as an instrumentality of the United States. The Executive Director shall prescribe by regulation or otherwise the organization, management, and conduct of the business of any District Rural Development Credit Agency chartered under this section, shall prescribe the initial amount of stock in the Regional Rural Development Credit Bank that such District Rural Development Credit Agency shall be required to purchase, and the territory within which its operations may be carried on. The Executive Director is authorized to modify the charter of any District Rural Development Credit Agency whenever he determines it necessary to accomplish the purposes of this Act.

(e) No application for designation under this section shall be approved unless the applicant agrees to subscribe to stock in the Regional Bank concerned in such amount as may be required by such bank.

Sec. 502. Governing Board.—Each District Rural Development Credit Agency shall have a governing board of directors of such number, for such terms, with such qualifications, and elected in such manner as may be required by State law and its Federal charter. No member of the board of directors shall, within one year after the date he ceases to be a member of such board, be elected or designated a salaried employee of such agency.

SEC. 503. GENERAL CORPORATE POWERS.—Each District Rural Development Credit Agency, subject to supervision by the appropriate Regional Bank and the Federal Rural Development Credit Agency, shall have power to—

(1) Have succession until terminated in accordance with this Act or any other Act of Congress.

(2) Adopt and use a corporate seal

(3) Make contracts.

(4) Sue and be sued.

(5) Acquire, hold, dispose, and otherwise exercise all of the usual incidents of ownership of real and personal property necessary or convenient to its business.

(6) Operate under the direction of its board of directors in accordance with this Act.

(7) Subscribe to stock of the Regional Bank of the region in which such District Rural Development Credit Agency is located.

(8) Purchase stock of a Regional Bank held by other District Rural Development Credit Agencies and stock of other such agencies.

(9) Contribute to the capital of such bank or other District Rural Development Credit Agencies.

(10) Invest its funds as may be approved by the appropriate Regional Bank under regulations of the Federal Rural Development Credit Agency and deposit its current funds and

securities with such Regional Bank, a member bank of the Federal Reserve System, or any bank insured with the Federal Deposit Insurance Corporation, and may pay fees therefor and receive interest thereon as may be agreed upon.

(11) Buy and sell obligations of or insured by the United States, or of any agency thereof, or obligations of any banks of the Rural Development Credit System.

(12) Borrow money from the appropriate Regional Bank, and with the approval of such bank, borrow from and issue its notes or other obligations to any commercial bank or other financial institution.

(13) Make and participate in loans, accept advance payments, and provide services and other assistance as authorized in this title and charge fees therefor.

(14) Endorse and become liable on loans discounted or pledged to a Regional Bank.

(15) Enter into loss sharing agreements with a Regional Bank and other District Rural Development Credit Agencies.

(16) Prescribe its bylaws through its board of directors and provide in such bylaws for—

(A) the classes of its stock and the manner in which such stock shall be issued, transferred, and retired;

(B) the election or appointment of its officers and employees;

(C) property acquired, held, or transferred;

(D) the conduct of its general business; and

(E) the exercise and enjoyment of the privileges granted to it pursuant to law.

(17) Elect by its board of directors a manager or other chief executive officer, and provide for such other officers or employees as may be necessary, including joint employees with other institutions of the Rural Development Credit System; define their duties and require surety bonds or make other provisions against losses occasioned by employees.

(18) Elect by its board of directors a loan committee with power to approve applications for loans, participations, or purchase of obligations, or, with the approval of the appropriate Regional Bank, delegate the approval of applications for loans or participations within specified limits to other committees or to authorized officers and employees of the agency or to a participating institution chartered under provisions of subtitle C.

(19) Perform any functions delegated to it by a Regional Bank or the Federal Rural Development Credit Agency.

(20) Exercise by its board of directors or authorized

officers or employees, all such incidental powers as may be necessary or expedient to carry on the business of the agency.

SEC. 504. CAPITAL STOCK, CLASSES OF STOCK, TRANSFER, EXCHANGE; AND DIVIDENDS.—(a) A District Rural Development Credit Agency may issue voting stock, nonvoting stock, preferred stock, and provide for an equity reserve. Holders of stock and equity reserve shall have such rights, not inconsistent with the provisions of this section, as are set forth in the bylaws of the agency. Stock shall be divided into shares of $5 par value each.

(b) Voting stock may be purchased only by borrowers or participating institutions who are eligible to borrow from or participate in financial operations of the agency. Each holder of voting stock shall be entitled to one vote for each such stock except as otherwise provided in subsection (d) hereof. No voting stock or any interest therein or right to receive dividends thereon shall be transferred by act of the parties or by operation of law, except to another person eligible to hold voting stock, and then only as provided in the bylaws.

(c) Nonvoting stock may be issued to the Executive Director and to other investors.

(d) Preferred stock, which shall be nonvoting, may be issued to the Executive Director and to other investors when authorized by a majority vote of the outstanding shares of the voting stock, by a majority vote of the outstanding shares of nonvoting stock, and by a majority vote of the outstanding shares of preferred stock, except that all stock held by the Executive Director shall be excluded from voting hereunder. The holders of such stock shall be entitled to one vote, in person, for each share of stock held. The authorization to issue preferred stock shall state the privileges, restrictions, limitations, dividend rights (either cumulative or noncumulative) redemption rights, preferences, and other qualifications affecting said stock, and the total amount of the authorized issue to which it belongs.

(e) Nonvoting stock may be issued to persons eligible to borrow from the agency to whom voting stock is not to be issued and to cooperating financial institutions.

(f) Each borrower from the agency shall be required to own at the time the loan is made voting or nonvoting stock as provided in the bylaws of the agency, in an amount equal in par value, as determined by the agency, to not less than $5 per $100 or fraction thereof nor more than $10 per $100 of the amount of the loan. Such stock shall not be canceled or retired upon payment of the loan or otherwise except as may be provided in the bylaws. Notwithstanding any other provision of this section, for a loan in which an agency participates with a commercial bank or other financial institution other than a Regional Bank or another District Rural Development Credit Agency, the requirement that the borrower own stock shall apply only to the portion of the loan which is retained by the agency.

(g) Voting stock shall, within two years after the holder ceases to be a borrower or a participating institution be converted into nonvoting stock at the fair book value thereof, not exceeding par. Consistent with the provisions of this title, and as provided in the bylaws of the agency, each class of stock shall be convertible into any other class of stock except preferred stock.

(h) As a further means of providing capital, a District Rural Development Credit Agency may, as provided in its bylaws, and with the approval of the appropriate Regional Bank, require borrowers and participating institutions to purchase stock in addition to that required in subsection (f) hereof and under subtitle C, or invest in the equity reserve, in an aggregate amount not exceeding $5 per $100 or fraction thereof of the amount of the loan in the case of borrowers and 50 cents per $100 or fraction thereof in the case of participating institutions. Any portion of the amounts invested under this subsection which is no longer required for the purposes of the agency may be returned to the owners thereof by revolving or retirement in accordance with its bylaws.

(i) Dividends shall be paid on preferred stock in accordance with the authorization of the stockholders to issue such stock. Dividends on stock, other than preferred stock, may be paid by a District Rural Development Bank Agency as provided in its bylaws at such rate or rates as are approved by the appropriate Regional Bank in accordance with regulations of the Federal Rural Development Credit Agency established in accordance with provisions of section 505.

(j) Except with regard to stock held by the Executive Director each District Rural Development Credit Agency shall have a first lien on stock and participation certificates it issues, allocated surplus, and on investments in equity reserve, for any indebtedness of the holder of such capital investments and, in the case of equity reserve, for charges for any such agency losses in excess of reserves and surplus.

(k) In any case where the debt of a borrower is in default, a District Rural Development Credit Agency may retire all or part of the capital investments in such agency held by such debtor at the fair book value thereof, not exceeding par, in total or partial liquidation of the debt.

SEC. 505. APPLICATION OF EARNINGS; RESTORATION OF CAPITAL IMPAIRMENT, AND SURPLUS ACCOUNT.—(a) Each District Rural Development Credit Agency at the end of each fiscal year shall apply the amount of its earnings for such year in excess of its operating expenses (including provision for valuation reserves against loan assets in an amount equal to one-half of 1 per centum of the loans outstanding at the end of the fiscal year to the extent that earnings in such year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of the loans outstanding at the end of the fiscal year, beyond which 3½ per centum further additions to such reserves are not required but may be made) first to the restoration of the impairment, if any, of capital; and second, to the establishment and maintenance of the surplus accounts, the minimum aggregate amount of which shall be prescribed by the appropriate Regional Bank.

(b) When the bylaws of a District Rural Development Credit Agency so provide, available net earnings at the end of any fiscal year may be distributed in stock, or in cash, except that when the Executive Director holds any stock in a District Rural Development Credit Agency the cash distribution shall be such percentage of the earnings as shall be determined under regulations of the Federal Rural Development Credit Agency. Any part of the earnings of the fiscal year in excess of the operating expenses for such year held in the surplus account may be allocated to stockholders.

SEC. 506. LOANS; PARTICIPATION; OTHER FINANCIAL ASSISTANCE; TERMS; CONDITIONS; INTEREST; SECURITY.—

(a) Each District Rural Development Credit Agency under rules and regulations prescribed by the board of directors of the appropriate Regional Bank and approved by the Federal Rural Development Credit Agency may through participating or cooperating institutions, make, guarantee, or participate with other lenders in making loans and in providing other similar financial assistance, and may buy obligations of borrowers for rural development purposes and other requirements of such borrowers. A District Rural Development Credit Agency is authorized to make loans and provide other authorized assistance under this title directly to any applicant eligible for such assistance in any rural area in which there is no participating or cooperating institution able and willing to supply on reasonable terms and conditions the credit needs of such applicant.

(b) Loans authorized in subsection (a) hereof shall bear such rate or rates of interest as are determined under regulations prescribed by the board of directors of the agency with the approval of the Federal Rural Development Credit Agency, and shall be made upon such terms, conditions, and upon such security, if any, as shall be authorized in such regulations. In setting rates and charges, it shall be the objective to provide the types of credit needed by eligible borrowers, at the lowest reasonable cost on a sound business basis, taking into account the cost of money to the agency, necessary reserves and expenses of the agency, and services provided to borrowers and participants. The loan documents may provide for the interest rate or rates to vary from time to time during repayment period of the loan in accordance with the rate or rates currently being charged by the agency. Such regulations may require prior approval of the Regional Rural Development Bank or the Federal Rural Development Credit Agency on certain classes of loans; and may authorize a continuing commitment to a borrower or a participant of a line of credit.

SEC. 507. OTHER SERVICES.—Each District Rural Development Credit Agency may provide technical assistance to borrowers, applicants, and participants and may make available to them such financial related services appropriate to their operations as is determined feasible under regulations prescribed by the Federal Rural Development Credit Agency.

SUBTITLE E—REGIONAL RURAL DEVELOPMENT CREDIT BANKS

SEC. 601. ESTABLISHMENT; TITLE; NUMBER.—There are established in the Rural Development Credit System ten Regional Rural Development Credit Banks as federally chartered instrumentalities of the United States. Their charters may be modified from time to time by the Federal Rural Development Credit Board, subject to approval of Farm Credit Administration and the Secretary of Agriculture, in any manner not inconsistent with the provisions of this title as may be necessary or expedient to implement this Act. The jurisdictional territory of the Regional Credit Banks shall be divided so as to correspond, to the maximum extent practicable, to the rural areas of the uniform regions established by the President of the United States for operation of Federal agencies, and the headquarters of each such bank shall be located within the rural area which it serves, but not necessarily in the same city which serves as the headquarters city of the uniform region for carrying out programs of Federal agencies. Each bank shall maintain a liaison office in the city, regardless of population, which serves as the headquarters city for the uniform region in which such bank is located. The Board of any Regional Rural Development Credit Bank may establish such branches as may be appropriate for the effective operation of its business, but the territorial jurisdiction of any such branch shall coincide with the boundary of one or more of the uniform multijurisdiction planning and development districts, if any, established by the Governor or the legislature of the State concerned. The headquarters of any such branch shall be located within the rural area served.

SEC. 602. CORPORATE EXISTENCE; GENERAL CORPORATE POWERS.—Each Regional Bank shall be a body corporate, subject to the supervision of the Federal Rural Development Credit Agency, and shall have power to—

(1) Adopt and use a corporate seal.

(2) Have succession until dissolved under the provisions of this Act or other Act of Congress.

(3) Make contracts.

(4) Sue and be sued.

(5) Acquire, hold, dispose and otherwise exercise all the usual incidents of ownership of real and personal, tangible and intangible property necessary or convenient for its business.

(6) Make loans and commitments for credits, accept advance payments, and provide services and other assistance as authorized in this Act, and charge, or not charge fees, therefor.

(7) Operate under the direction of its board of directors.

(8) Elect by its board of directors, a President, a secretary, a treasurer, and provide for such other officers, employees, and agents as may be necessary, including joint employees with the institutions of the Farm Credit System and of other institutions of the Rural Development Credit System, define their duties, and require surety bonds or make other provisions against losses occasioned by employees.

(9) Prescribe its bylaws through its board of directors, and provide in such bylaws, in accordance with rules and

regulations of the Federal Rural Development Credit Agency, for—

(A) the classes of its stock and the manner in which such stock shall be issued, transferred, and retired;

(B) the election or appointment of its officers and employees, except that the training and practice of appraisal personnel shall be subject to the supervision of the Farmers' Home Administration or, with approval of the Farm Credit Administrator, of the Farm Credit Administration;

(C) property acquired, held, or transferred;

(D) the conduct of its general business; and

(E) the exercise and enjoyment of the privileges granted to it by law.

(10) Borrow money and issue notes, bonds, debentures, or other obligations individually, or in concert with one or more other Regional Banks of such character, terms, conditions, and rates of interest as it may determine.

(11) Accept deposits of securities or of current funds from borrowers and participants and agencies established under this Act, and pay interest on such funds.

(12) Participate with one or more other Regional Banks under this title on such terms as may be agreed upon among such banks and to participate with private banks and

other financial institutions in rural areas on such terms as may be agreed upon among such banks or institutions.

(13) Approve, in establishing the eligibility of any District Rural Development Credit Agency for participation in the Rural Development Credit System, the salary scale of the officers and employees of the District Rural Development Credit Agencies and the compensation of the chief executive officer thereof and supervise the exercise by such agencies of the functions vested in or delegated to them under this Act, except that the appointment of the chief executive officer of any such District Rural Development Credit Agency shall be subject to the approval of the Regional Bank concerned so long as the United States holds stock in such Rural Development Bank Agency

(14) Deposit its securities and its current funds with any member bank of the Federal Reserve System, and pay fees therefor and receive interest thereon as may be agreed. When designated for that purpose by the Secretary of the Treasury, it shall be a depository of public money, except receipts from customs, upon such regulations as may be prescribed by the Secretary; may be employed as fiscal agent of the Government, and shall perform all such reasonable duties as a depository of public money or financial agent of the Government as may be required of it. No Government funds deposited under provisions of this subsection

shall be invested in loans or bonds or other obligations of the bank.

(15) Buy and sell obligations of or insured by the United States or of any agency thereof, or securities backed by the full faith and credit of such agency, and make such other investments as may be authorized by the Federal Rural Development Credit Agency.

(16) Conduct studies and adopt standards for lending and provide other encouragement for the development of private business enterprise, and for the quality of life, economic earning opportunities and jobs, and public and community works, facilities, and services in the rural area it serves.

(17) Delegate to District Rural Development Credit Agencies and through them to participating institutions such functions vested in or delegated to the bank, as it may determine appropriate, as approved by the Federal Rural Development Credit Agency.

(18) Amend and modify loan contracts, documents, and payment schedules, and release, subordinate, or substitute security for any of them.

(19) Perform any function delegated to it by the Federal Rural Development Credit Board or the Federal Rural Development Credit Agency.

(20) Require District Rural Development Credit Agen-

cies and participating and cooperating institutions to endorse those notes and other obligations of their borrowers as are presented to the bank for the purpose of obtaining financial assistance.

(21) Exercise by its board of directors or authorized officers, employees, or agents all such incidental powers as may be necessary or expedient to carry out the business of the bank.

SEC. 603. RURAL DEVELOPMENT CREDIT BANK STOCK; VALUE; SHARES; VOTING; DIVIDENDS.—(a) The capital stock of each Regional Bank shall be divided into shares of par value of $5 each and may be of such classes as its board of directors may determine with approval of the Federal Rural Development Credit Agency and under rules and regulations established by the Federal Rural Development Credit Board.

(b) Voting stock of each bank shall be held only by Rural Development Credit Agencies and participating institutions and borrowers who obtain financial assistance from such banks, which stock shall not be transferred, pledged, or hypothecated except as authorized pursuant to this title or as authorized under regulations of the Federal Rural Development Credit Agency. Any District Rural Development Bank Agency may elect to receive nonvoting stock in lieu of voting stock.

(c) The Board of each Regional Bank shall from time to time increase its capital stock as may be necessary to permit the issuance of additional shares to borrowers (including participating institutions using financial assistance of District Rural Development Credit Agencies so that borrowers and participating institutions of such agencies may be eligible for loans and other financial assistance from such agencies.

(d) Nonvoting stock may be issued to the Executive Director of the Federal Rural Development Credit Agency and may also be issued to District Rural Development Credit Agencies, other rural financial institutions, and other direct borrowers.

(e) The earnings of a Regional Bank shall be determined in accordance with approved accounting principles and practices, as established by the Federal Rural Development Credit Agency subject to examination by the Farm Credit Administration and subject to the rules and regulations of the Federal Rural Development Credit Board and the General Accounting Office. Earnings shall be distributed as follows:

First, not less than 10 per centum of net earnings for the year shall be paid into the reserve fund of the bank until said reserve fund shall equal 150 per centum of outstanding stock.

Second, not less than 10 per centum of net earnings for the year shall be paid into the capital surplus fund to the bank.

Third, payment of the franchise tax as required by section 614 for any year in which any stock is held by the Executive Director.

Fourth, payment of dividends on nonvoting stock of not to exceed the average cost to the Federal Rural Development Credit Agency of funds obtained through issuance of bonds, debentures, and other evidences of indebtedness in its funding operations.

Fifth, retirement of nonvoting stock and other evidences of indebtedness of the bank held by the Executive Director.

Sixth, payment of dividends on voting stock of the bank as determined by its board of directors, if the bank has retired all of the nonvoting stock of the bank that have been issued to the Executive Director.

(f) Dividends shall not be payable on any stock held by the Executive Director. Noncumulative dividends may be payable on other stock to the extent available from earnings in accordance with subsection (e) of this section, and dividends may be paid on other stock of the bank. The rate of dividends may be different between different classes and different issues of stock on the basis of the comparative contributions of holders thereof to the capital or earnings of the bank by such classes, types, and issues; but no dividends shall be paid on voting stock and no dividends greater than 5 per centum per annum on par value of nonvoting stock until such time as two-thirds of the capital stock subscribed by the Executive Director, in accordance with provisions herein, shall have been retired; otherwise dividends shall be in the order indicated in subsection (e).

(g) Nonvoting stock may be sold by nonborrowers to borrowers or potential borrowers, participating institutions, or District Rural Development Credit Agencies who may convert such nonvoting stock into voting stock at their election at any time prior to final repayment of indebtedness to the bank. Voting stock may be sold only to District Rural Development Credit Agencies, participating institutions, or other borrowers or potential borrowers of the bank. Nonvoting stock may be redeemed at any time by the bank, at the election of the owner, in accordance with a schedule of values published from time to time by the bank. When a District Rural Development Credit Agency reduces its total outstanding indebtedness to the bank, its voting stock may be converted at par value, or such greater value as the bank may from time to time determine, into nonvoting stock, or may be redeemed in cash or as a credit to extinguish final indebtedness at such value as the bank may from time to time determine. The bank may establish, with approval of the Federal Rural Development Credit Agency under rules and regulations established by the Rural Development Credit Board, the terms and conditions for the sale, transfer, and redemption of such other classes of stock and evidences of indebtedness that it may issue from time to time. Nonvoting stock and other evidences of indebtedness of the bank held by the Executive Director may be retired at any time, subject to approval of the Federal Rural Development Credit Board, and shall be retired each year to the extent of the availability of earnings in accordance with the provisions of subsection (e).

SEC. 604. LOANS.—The Regional Banks are authorized to—

(1) make, participate in, extend mortgage insurance in connection with, refinance, discount and rediscount, or guarantee loans, purchase obligations and provide other financing for real or personal property or for working capital and operating expenses in connection with loans made or participated in or obligations purchased by District Rural Development Agencies to finance any rural development purpose project carried out or to be carried out in a rural area served by the bank;

(2) make, participate in, insure mortgages in connection with, refinance, discount and rediscount, or guarantee loans or provide other interim financing provided by District Rural Development Credit Agencies for the

construction or improvement of any rural development purpose project to building contractors, leasors, architects, planning and engineering firms, or other persons or firms engaged in such work;

(3) provide or assist a District Rural Development Credit Agency in providing insurance to protect any organization, firm, or individual receiving financing for the construction, improvement, or expansion of any rural development purpose project against damage or casualty loss in connection with such project; and

(4) require that District Rural Development Credit Agencies maintain ownership of voting or nonvoting stock in the Regional Banks equal to not less than $5 per $100 of outstanding loans and not more than $10 per $100.

SEC. 605. INTEREST RATES AND OTHER CHARGES.—Loans made, insured, guaranteed, participated in, refinanced, discounted, or rediscounted by a Regional Bank shall bear interest at a rate or rates, and on such terms and conditions, as may be determined by the board of directors of the bank from time to time, with the approval of the Federal Rural Development Credit Agency and under rules and regulations established by the Federal Rural Development Credit Board. In setting rates and charges, it shall be the objective to provide the types of credit needed by eligible borrowers at the lowest reasonable cost on a sound business basis, taking into account the cost of money to the bank, the necessary reserves, capital surplus, and expenses of the banks and its District Rural Development Credit Agencies and participating institutions, the orderly retirement of the capital subscriptions of the United States, and the cost of providing services to borrowers and stockholders, participating institutions, District Rural Development Credit Agencies and rural communities so that such borrowers may make their maximum contribution to enhancing economic opportunity and the quality of life in the rural area served. The loan documents may provide for the interest rate or rates to vary from time to time during the repayment period of the loan in accordance with the rate or rates currently being charged by the bank.

SEC. 606. ELIGIBILITY.—The services authorized in this title may be made available directly or through District Rural Development Credit Agencies or participating institutions of the bank, as the situation may require, to public and quasi-public bodies, cooperative associations as defined in the Agricultural Marketing Act (42 Stat. 388; 12 U.S.C. 114j(a)), if such associations are unable to borrow from the banks for cooperatives, other cooperatives, corporations, partnerships, or individual proprietors which are or become stockholders or owners of nonvoting stock of District Rural

Development Bank Agencies or in a Regional Rural Development Bank. Such financial assistance may also be made available to multijurisdictional rural governmental planning and development districts established by the legislature or Governor of a State, to persons, firms, owners of rural homes, municipalities, resource conservation and development project sponsors under title II of the Bankhead-Jones Farm Tenant Act, sponsoring associations carrying out projects under the Watershed Protection and Flood Prevention Act, corporate entities established by sponsors of concerted education and training service projects carried out jointly by the Department of Agriculture, the Department of Health, Education, and Welfare, and the Department of Labor, councils of government established under State law if rural areas are included within their jurisdiction, private associations, local development districts organized under the Appalachian Development Act, and Economic Development Districts organized under the Economic Development Act of 1965, but such eligibility shall be conditioned upon—

(1) review of the loan application by the appropriate body of the multijurisdictional government planning and development district, if any, established by the legislature or Governor of the State concerned and a certification by such body that the proposed facility, work or service is not inconsistent with the current

comprehensive development plan, if any, for the multijurisdictional district;

(2) demonstration by the applicant that the facility, work, or service to be financed from the loan proceeds and rural capital augmentation and rural interest supplement payments will not result in the transfer from another location or firm of employment or business activity now provided by operations of the applicant or a directly competing firm;

(3) demonstration by the applicant that he has been unable within a reasonable time to obtain needed financial assistance from other private or public sources at reasonable rates and conditions;

(4) demonstration by the applicant that, taking into consideration any rural capital augmentation or rural interest supplement payments for which he is eligible under provisions of subtitle G, or other grants in aid, otherwise available, the applicant can meet the principle repayment and interest payments specified in the amortization schedule and loan agreement;

(5) demonstration by the applicant that the facility, work, or service provided by the project will be located in and operate primarily in a rural area to increase the employment of or for the benefit of rural residents and that the proposed project promises to make a net

increase in the number of jobs, quality of life, or median family income in the rural area served; and

(6) demonstration and certification by the applicant that neither the facility, work, or service, nor any of the personnel thereof as employees will be used for the purpose of engaging in religious or partisan political activities.

SEC. 607. SECURITY.—Loans made, participated in, insured, guaranteed, discounted, or rediscounted by, or obligations purchased by, Regional Banks shall be secured by all of the best available security owned or to be purchased by the borrower as may be required adequately to secure the loan, and by the endorsement of the appropriate District Rural Development Credit Agency and participating institutions. However, credit factors other than the ratio between the amount of the loan and the security value shall be given due consideration.

SEC. 608. SERVICES RELATED TO BORROWERS OPERATIONS.—The Regional Banks may provide technical assistance to District Rural Development Credit Agencies, participating institutions, applicants for loans, and to other financial institutions, in rural areas and may make available to them such financially related and technical services appropriate to their operations as are determined to be feasible, under regulations of the Federal Rural Development Credit Board.

SEC. 609. LOANS THROUGH AGENCIES, AND PARTICIPATING AND COOPERATING INSTITUTIONS.—The Regional Banks shall make financial assistance available to qualified borrowers through District Rural Development Credit Agencies and participating and cooperating institutions in the area served by such bank. If no existing District Rural Development Credit Agency or participating or cooperating institution is available to handle the application, or if no multijurisdictional planning and development district is chartered for the area where the loan proceeds will be utilized, the bank may make the loan through such bank, trust company, savings, or other financial institution as it may designate or may make the loan directly to the borrower. Such applicant shall purchase in stock of the Regional Bank an amount equal to not less than $5 and not more than $10 for each $100 of the loan proceeds.

SEC. 610. ELIGIBILITY OF DISTRICT AGENCIES AND PARTICIPATING INSTITUTIONS.—The eligibility of any District Rural Development Credit Agency and of any participating or cooperating financial institution to receive or handle loans from Regional Banks and to serve as agent for such banks must be determined by the Regional Bank on the basis of an application and in accordance with criteria established by the Federal Rural Development Credit Agency under rules and regulations of the Federal Rural Development Credit Board. Such agencies, and participating and cooperating institutions, meeting such criteria shall be eligible to borrow from Regional Banks and to discount or rediscount, insure, or obtain guarantee on such eligible obligational paper with or to the banks and shall, with the exception of cooperating institutions, be required to purchase bank stocks equivalent to, in the case of District Rural Development Credit Agencies, 5 to 10 per centum, and in the case of participating institutions, 1 per centum, of the amount borrowed, discounted, or sold. Such eligible District Rural Development Credit Agencies shall be authorized to require the borrowers, whose paper they discount, insure, or handle for the bank, to purchase stock of such institutions to the extent that such institutions are required to purchase stocks of a Regional Bank. Only those financial institutions whose volume of loans in rural areas is more than one-half of the total volume of all its loans shall be eligible to purchase voting stock of District Rural Development Credit Agencies or of Regional Banks; otherwise the required capital participation shall be acquired in the form of nonvoting stock.

SEC. 611. BOARDS OF DIRECTORS.—(a) Each Regional Bank shall have a Board of Directors consisting of twelve members appointed by the Federal Rural Development

Credit Board. Not more than seven members may be of the same political party and all members shall be legal residents of the rural areas within which the bank is authorized to operate.

(b) During the period in which the Executive Director holds two-thirds or more of the outstanding capital stock of any Regional Bank—

(1) nine members of the board of directors of such bank shall be appointed by the Federal Rural Development Credit Board from a panel of nominees of not less than twenty persons named by the Executive Director from among eligible legal residents of the rural area served by the bank who are not officers or employees of the United States or of any State government or of any institution of the Rural Development Credit System or the Farm Credit System; and

(2) three members shall be appointed by the Federal Rural Development Credit Board from a panel of six nominees elected by the holders of voting stock in such bank, subject to the same legal residence requirements and employment restrictions prescribed in paragraph (1).

(c) During any period in which the Executive Director holds one-third or more but less than two-thirds of the outstanding capital stock of any Regional Bank—

(1) six members of the board of directors of such bank shall be appointed by the Federal Rural Development Credit Board from a panel of not less than fifteen nominees named by the Executive Director from among eligible legal residents of the rural area served by the bank subject to the same legal residence requirements and employment restrictions prescribed in subsection (b) (1); and

(2) six members shall be appointed by the Federal Rural Development Credit Board from a panel of twelve nominees elected by holders of voting stock in such bank, subject to same legal residence requirements and employment restrictions prescribed in subsection (b) (1).

(d) During any period in which the Executive Director holds less than one-third of the outstanding capital stock of any Regional Bank—

(1) nine members of the board of directors of such bank shall be appointed by the Federal Rural Development Credit Board from a panel of twenty nominees elected by the holders of voting stock in such bank, subject to the same legal residence requirements and employment restrictions prescribed in subsection (b) (1); and

(2) three members shall be appointed by the Federal Rural Development Credit Board from a panel of

not less than six nominees named by the Executive Director from among eligible legal residents of the rural areas served by such bank, subject to the same legal residence requirements and employment restrictions prescribed in subsection (b) (1).

(e) During any period in which the Executive Director holds no capital stock in any Regional Bank—

(1) eleven members of the board of directors of such bank shall be appointed by the Federal Rural Development Credit Board from a panel of not less than twenty-five nominees elected by the holders of voting stock in such bank, subject to the same legal residence requirements and employment restrictions prescribed in subsection (b) (1) ; and

(2) one member shall be appointed by the Federal Rural Development Credit Board from a panel of not less than five nominees named by the Executive Director from among eligible legal residents of the rural area served by the bank.

(f) The board of directors of each Regional Bank shall elect one of its own members to serve for one year as chairman of the board and shall elect a President of such bank. who shall be an ex officio member of the Board.

(g) The board of directors of each Regional Bank may appoint such other officials and employees as may be required for the necessary and effective operation of the bank subject to regulations established by the Federal Rural Development Credit Board.

(h) Members of the boards of directors of the Regional Banks may receive the sum of $100 for each day or part thereof spent in the performance of their official duties, which compensation shall not be paid for more than seventy-five days or parts of days in any calendar year and shall not be paid to any board member who is an official of the Government of the United States or of any State. Such members shall be reimbursed for necessary travel, subsistence, and other expenses incurred in discharge of their official duties without regard to the laws with respect to allowances which may be made on account of travel and subsistence expenses of officers and employed personnel of the United States.

SEC. 612. CAPITALIZATION OF THE REGIONAL BANKS.—Subject to the provisions of this title, the President of each Regional Bank is authorized to issue from time to time and to have outstanding voting and nonvoting capital stock of an aggregate par value of not to exceed 100 per centum of its pro rata share of the amount of outstanding capital stock of the Rural Development Credit System, as determined by the Federal Rural Development Credit Board, taking into account the geographic distribution among the regions served of the unmet needs for credit for rural revitalization and the initiation of the community facilities and services and public works and industrial and other economic enterprises required to expand jobs, expand income, and improve the quality of life in the areas served by the several Regional Banks. The Executive Director is authorized to purchase and accept nonvoting stock of any Regional Bank not to exceed that bank's pro rata share as determined herein.

SEC. 613. GOVERNANCE OF POLICIES, PROGRAMS, AND PROCEDURES OF REGIONAL BANKS.— The Federal Rural Development Credit Board shall establish and promulgate rules and regulations, not inconsistent with provisions of this title, to govern the policies, programs, and procedures of a Regional Bank during any period in which the Executive Director of the Federal Rural Development Credit Agency holds capital stock in such bank. Any Regional Bank, its board of directors, and its President shall be conclusively presumed to be acting in accordance with such rules and regulations in all their actions and decisions.

SEC. 614. STOCK PURCHASED BY EXECUTIVE DIRECTOR; RETIREMENT; FRANCHISE TAX; REVOLVING FUND.— (a) Any Regional Bank may issue stock which may be purchased by the Executive Director on behalf of the United States as an initial or a temporary investment in the stock of such bank to help such bank to inaugurate lending operations or to meet emergency credit needs of borrowers. During the time such stock is outstanding, the pertinent provisions of the Government Corporation Control Act shall be applicable to such Regional Bank.

(b) The Executive Director shall require the retirement of any stock held by him in any Regional Bank at such time as in his opinion the bank has resources available therefor and the need for such investment is reduced or no longer exists.

(c) For any year or part thereof in which the Executive Director holds any stock in a Regional Bank, such bank, after complying with section 603 (e) and before declaring any dividends or patronage distribution, shall pay to the United States as a franchise tax a sum equal to the lower of (1) 25 per centum of its net earnings for the year, or (2) a rate of return on such investment calculated at a rate determined by the Secretary of the Treasury equal to the average annual rate of interest on all public issues of debt obligations of the United States issued during the fiscal year ending next before such tax is due, multiplied by the percentage that the number of days such stock is outstanding is of three hundred and sixty-five days. Such payments shall be deposited in the miscellaneous receipts in the Treasury.

SEC. 615. SUBSCRIPTION BY THE UNITED STATES OF INITIAL AND ADDITIONAL CAPITAL.—(a) The Executive

Director is authorized to purchase stock of any Regional Bank on behalf of the United States.

SEC. 616. POWET TO BORROW, ISSUE NOTES, BONDS, DEBENTURES, AND OTHER OBLIGATIONS.—Each Regional Bank subject to supervision of the Federal Rural Development Credit Agency shall have power to—

(1) Borrow from or loan money to any other Regional Bank, borrow from any commercial bank or other lending institution, issue its notes or other evidence of debt on its own individual responsibility and full faith and credit, and invest its excess funds in such sums, at such times, and on such terms and conditions as it may determine.

(2) Issue its own notes, bonds, debentures, or other similar obligations, fully collateralized by the notes, mortgages, and security instruments it holds in the performance of its functions under this title in such sums, maturities, rates of interest, and terms and conditions of each issue as it may determine with approval of the Executive Director.

(3) Join with any or all banks organized and operating under this subtitle in borrowing or in issuance of consolidated notes, bonds, debentures, or other obligations as may be agreed with approval of the Executive Director.

(4) Join with other Regional Banks in issuance of notes, bonds, debentures, and other obligations in the manner, form, amounts, and on such terms and conditions as

may be agreed upon with approval of the Executive Director. Any such issue by two or more Regional Banks and the participation by each such bank shall not exceed the limits to which each such bank is subject in the issuance of its individual or consolidated obligations. Each such issue shall be subject to approval of the Executive Director.

SEC. 617. AGGREGATE OF OBLIGATIONS; SECURITY.—(a) No issue of long-term notes, bonds, debentures, or other obligations by one or more Regional Banks shall be approved in an amount which, when added to the amount of other bonds, debentures, long-term notes, or other similar obligations issued and outstanding, exceeds twenty times the capital and surplus of all the Regional Banks which will be primarily liable on the proposed issue, or such lesser amount as the Federal Rural Development Credit Agency shall establish by regulation.

(b) Each bank shall have on hand at the time of issuance of any long-term notes, bonds, debentures, or other similar obligations, and shall at all times thereafter maintain, free from any lien or other pledge, notes and other obligations representing loans made under the authority of this Act, obligations of the United States or any agency thereof direct or fully guaranteed, other readily marketable securities approved by Federal Rural Development Credit Agency, or cash, in an aggregate value equal to the total amount of long-term notes, bonds, debentures, or other similar obligations outstanding for which the bank is primarily liable.

SEC. 618. LIABILITY OF BANKS.—(a) Each Regional Bank shall be fully liable on notes, bonds, debentures, or other obligations issued by it individually, and shall be liable for the interest payments on long-term notes, bonds, debentures, or other obligations issued by other Regional Banks operating under provisions of this Act. Each bank shall also be primarily liable for the portion of any issue of consolidated obligations made on its behalf and shall be jointly and severally liable for the payment of any additional sums when called upon by the Federal Rural Development Credit Agency to make payments of interest or principal which any other Regional Bank primarily liable therefor is unable to make. Such calls shall be made upon Regional Banks operating under this title taking into account the capital, surplus, bonds, debentures, or other obligations which each may have outstanding at the time of such assessment.

(b) Each Regional Bank participating in an issue shall by appropriate resolution undertake such responsibility as provided in subsection (a), and in the case of consolidated obligations shall authorize the Executive Director to execute long-term notes, bonds, debentures, or other obligations on its behalf. When a consolidated issue is approved, the notes, bonds, debentures, or other obligations shall be executed by the Executive Director and the banks shall be liable thereon as provided herein.

(c) The United States shall not be liable or assume any liability directly or indirectly thereon, except as otherwise provided in this Act.

SEC. 619. FINANCE COMMITTEE.—There shall be established a finance committee for the Regional Banks organized and operated under this title composed of the presidents of such bank. The Committee may have such officers and such subcommittees for such terms and such representation as may be agreed upon by the members of the committee. When appropriate to the performance of their function, the subcommittees, or representatives thereof, shall constitute a subcommittee for consideration of consolidated issues of obligations. The finance committees and subcommittees thereof shall, subject to approval of the Executive Director, determine the amount, maturities, rates of interest, and participation by the several banks in each issue of joint or consolidated obligations.

SEC. 620. BONDS AS INVESTMENTS.—The bonds and other similar obligations issued under the authority of this title shall be lawful investments for all fiduciary and trust funds and may be accepted as security for all public deposits.

Sec. 621. Purchase and Sale by Federal Reserve System.—Any member of the Federal Reserve System may buy and sell bonds, debentures, or other similar obligations issued under the authority of this title, and any Federal Reserve bank may buy and sell such obligations to the same extent and subject to the same limitations placed upon the purchase and sale by said banks of State, county, district, and municipal bonds under section 14(b) of the Federal Reserve Act (12 U.S.C. 355).

Sec. 622. Purchase and Sale of Obligations.—Each regional bank may purchase its own obligations and the obligations of other Regional Banks and may provide for the sale of obligations issued by it, or issued jointly with one or more other banks, through a fiscal agent or agents, by negotiation, offer, bid, or syndicate sale, and to deliver such obligations by book entry, wire transfer, or such other means as may be appropriate. The sales agency of the Farm Credit System shall be utilized on a reimbursable basis by the Regional Banks for the purchase and sale of obligations.

Sec. 623. Fiscal Agency.—A fiscal agency shall be established by the Regional Banks for such of their functions relating to the issuance, marketing, and handling of their obligations, and interbank or intersystem flow of funds as may from time to time be required.

Sec. 624. Merger of Similar Banks.—Regional

Banks organized or operating under this title may, upon approval of a majority of their stockholders and the Federal Rural Development Credit Agency, merge with banks in other regions operating under this subtitle.

SEC. 625. BOARD OF DIRECTORS FOR MERGED BANK.—In the event of a merger of two or more banks to serve borrowers in more than one rural development credit region, a new board of directors shall be created for the resulting merged bank. The board thus created shall be composed of directors elected by the boards of the banks being merged. Notwithstanding the foregoing, the bylaws of the merged bank may, with the approval of the Federal Rural Development Credit Agency and subject to rules and regulations established by the Federal Rural Development Credit Board, provide for a different number of directors selected in a different manner. The board so constituted shall have all the powers, functions, and duties as are normally exercised by a regional bank board related to the operations and policies of the banks which were merged.

SEC. 626. DISSOLUTION; VOLUNTARY LIQUIDATION; INSOLVENCY; MERGERS; RECEIVERSHIPS; AND CONSERVATORS.—(a) No institution of the System shall go into voluntary liquidation without the consent of the Federal Rural Development Credit Agency and with such consent may liquidate only in accordance with regulations prescribed by the Federal Rural Development Credit Board.

(b) Upon default of any obligation by a Regional Bank, such bank may be declared insolvent and placed in the hands of a conservator or a receiver appointed by the Executive Director and the proceedings thereon shall be in accordance with regulations of the Federal Rural Development Credit Agency regarding such insolvencies.

SUBTITLE F—FEDERAL RURAL DEVELOPMENT CREDIT AGENCY

SEC. 701. FEDERAL RURAL DEVELOPMENT CREDIT AGENCY; EXECUTIVE DIRECTOR.—There is hereby established in the executive branch of the Government an independent agency to be known as the Federal Rural Development Credit Agency. There shall be at the head of such agency an Executive Director who shall have such powers and duties as may be prescribed by the Federal Rural Development Credit Board. The Agency shall be responsible for carrying out the programs provided for in this title.

SEC. 702. APPOINTMENT OF EXECUTIVE DIRECTOR; SALARY AND EXPENSE ALLOWANCE.—(a) The Executive Director shall be appointed by and serve at the pleasure of Federal Rural Development Credit Board, except that during any period that the Executive Director holds any stock in any Regional Bank, his appointment shall be subject to approval of the President of the United States;

and the Executive Director shall, during any such period, serve at the pleasure of the President.

(b) The compensation of the Executive Director shall be at the rate prescribed for positions in level IV of the Executive Pay Schedule provided for under subchapter II of chapter 53 of title 5, United States Code. The Federal Rural Development Credit Board shall fix the allowance for his necessary travel and subsistence expenses or per diem in lieu thereof.

SEC. 703. COMPLIANCE WITH BOARD ORDERS.—The Executive Director shall be responsible, subject to the supervision and control of the Federal Rural Development Credit Board, for carrying out the functions of the Agency and the policies of such Board. He shall carry out all orders and directives received by him from the Federal Rural Development Credit Board. All acts of the Executive Director shall be conclusively presumed to be in compliance with the orders and directives of such Board.

SEC. 704. RURAL DEVELOPMENT CREDIT ORGANIZATION.—The Executive Director is authorized, in carrying out the powers and duties now or hereafter vested in him by this title and Acts supplementary thereto, to establish and to fix the powers and duties of such divisions and instrumentalities as he may deem necessary to insure the proper and efficient administration of the functions of the Federal Rural Development Credit Agency. The Executive Director shall have authority to appoint and employ such personnel as may be necessary to carry out the functions of the Agency, including the appointment with the approval of the Federal Rural Development Credit Board of a Deputy Director of the Agency who shall receive compensation at the rate prescribed for positions level V of the Executive Pay Schedules provided for under subchapter II of chapter 53 of title 5, United States Code. The powers of the Executive Director may be exercised by him through such officers and employees of the Rural Development Credit Agency as he may designate. The Executive Director shall provide on a reimbursable basis such administrative management services other than public information, for the Board and the Rural Development Investment Equalization Administration as shall be mutually agreed upon.

SEC. 705. SEAL.—The Federal Rural Development Credit Agency shall have a seal, as adopted by the Executive Director, which seal shall be judicially noted.

SEC. 706. ADMINISTRATION EXPENSES.—The Federal Rural Development Credit Agency may, within the limits of funds available therefor, make necessary expenditures for personnel services and rent at the seat of Government and elsewhere; contract stenographic reporting services; purchase and exchange law books, books of reference, periodicals, newspapers, expenses of attendance at meetings and conferences; purchase, operation, and maintenance at the seat of Government and elsewhere of motor-propelled passenger-carrying vehicles and other vehicles; printing and binding; and for such other facilities and services, including temporary employment by contract or otherwise, as it may from time to time find necessary for the proper administration of this Act.

SEC. 707. ALLOCATION OF EXPENSES FOR ADMINISTRATIVE SERVICES BY THE FEDERAL RURAL DEVELOPMENT CREDIT AGENCY; DISPOSITION OF MONEY.—(a) The Federal Rural Development Credit Agency shall prior to the first day of each fiscal year estimate the cost of administrative expenses for the ensuing fiscal year in administering this title, including official functions, and shall apportion the amount so determined among the institutions of the System on such equitable basis as such Agency shall determine, and shall assess against and collect in advance the amount so apportioned from the institutions among which the apportionment is made.

(b) The amounts collected pursuant to subsection (a) of this section shall be covered into the Treasury, and credited to a special fund, which fund, augmented by such additional funds as may be required during first five fiscal years of operation is authorized to be appropriated to said

Agency for expenditure during each fiscal year for salaries and expenses of said Agency as set forth in appropriation Acts. As soon as practicable after the end of each fiscal year, the Agency shall determine, on a fair and reasonable basis, the cost of operation of the Federal Rural Development Credit Agency during such fiscal year and the portion of such cost which fairly and equitably should be allocated to each Regional Bank and to each of the other institutions of the Rural Development System as their respective shares of the cost during such fiscal year. If the amount so allocated is greater than the amount collected from any Regional Bank or other institution of the Rural Development System, the difference shall be collected from such bank or other institution, and, if less, shall be refunded from the special fund to the bank or other institution entitled thereto or credited in the special fund to such bank or other institution for use for the same purposes in future fiscal years.

SEC. 708. ENUMERATED POWERS.—The Federal Rural Development Credit Agency shall have the following powers, functions, and responsibilities in connection with the institutions of the Rural Development Credit System and the administration of this Act:

(1) Modify the boundaries of the territory of the Regional Banks, with due regard for the rural development investment and credit needs of the country, as approved by

the Federal Rural Development Credit Board and the President of the United States.

(2) Issue, amend, and modify Federal charters of institutions of the System and approve changes in names of banks operating under this Act; approve the merger of Regional Banks when agreed to by the boards of the banks involved and by a majority of the voting stockholders of each of the banks concerned.

(3) Make annual reports to the Congress on the condition of the Rural Development Credit System and its institutions and, from time to time, make recommendations for such legislative changes as it deems necessary to improve the operation of such System.

(4) Coordinate the activities of the banks in making studies of lending standards, the need for better geographic distribution of population and economic opportunity, appraisal and credit standards, and credit requirements of rural industrial and commercial enterprise; approve national and regional standards, procedures, and appraisal forms; prescribe price and cost levels to be used in such standards, appraisals, and lending; supplement the work of the Regional Banks under the foregoing where necessary to accomplish the purposes of this title.

(5) Prescribe loan security requirements and the types,

classes, or number of loans which may be made only with prior approval.

(6) Conduct loan and collateral security review.

(7) Approve the issuance of obligations of the institutions of the Rural Development Credit System and execute on behalf of the Regional Banks consolidated obligations for the purpose of providing financial assistance for the authorized operations of the institutions of the System, and prescribe collateral therefor.

(8) Approve interest rates paid by institutions of the System on their bonds, debentures, and similar obligations, the terms and conditions thereof, and interest or other charges made by such institutions to borrowers.

(9) Make investments in stock of the institutions of the System and require the retirement of such stock and convertible debentures.

(10) Regulate the borrowing, repayment, and transfer of funds and equities between institutions of the Rural Development Credit System.

(11) Coordinate and assist in providing services necessary for the convenient, efficient, and effective management of the institutions of the Rural Development Credit System.

(12) Undertake research into the rural development and credit needs of the rural areas of the Nation and ways and

means of meeting such needs and of funding the operations of the Rural Development Credit System in relation to changing demographic and economic conditions.

(13) Prepare and disseminate information to the general public on use, organization, and functions of the System and to investors on merits of its securities.

(14) Require surety bonds or other provision for protection of the assets of the institutions of the Rural Development Credit System against losses occasioned by employees.

(15) Prescribe rules and regulations necessary or appropriate for carrying out the provisions of this Act.

(16) Exercise such incidental powers as may be necessary or appropriate to fulfill its duties and carry out the purposes of this Act.

SEC. 709. SPECIAL POWERS.—(a) Subject to the provisions of this title, the Rural Development Credit Agency is authorized—

(1) to make commitments, directly or through Regional Banks, District Rural Development Credit Agencies, or participating and cooperating institutions to purchase, and make commitments to purchase, service, and sell, on terms and conditions determined by the Agency, any obligation (or participation therein) of a State or local government issued wholly or partly to

finance any rural development purpose project, facility, or service of any kind in any rural area;

(2) to make or guarantee, directly or through Regional Banks, District Rural Development Credit Agencies, or participating institutions, loans to States or local general governments to finance any rural development purpose project, facility, or service of any kind in any rural area (including loans to nonprofit or quasi-governmental organizations and entities to finance the construction of housing, medical facilities, industrial parks, buildings for industrial and business use, and other facilities, other than electric or telephone utilities which are supported by Federal or State programs, that are determined by the Federal Rural Development Credit Agency to have the attributes of public facilities); and

(3) to make, directly or through Regional Banks, District Rural Development Credit Agencies, or participating and cooperative institutions, loans for the purpose of facilitating economic, physical, and social development in rural areas.

(b) The Federal Rural Development Credit Agency shall develop criteria to assure that projects assisted by it are not inconsistent with the comprehensive planning, if any, for the development of the multijurisdictional districts or other areas in which such projects are proposed to be located, and to assure that such projects will not be disruptive of Federal programs which authorize assistance for the development of like or similar projects in the same rural area.

(c) A loan made, discounted, rediscounted, guaranteed, or participated in under this section may not exceed the total capital cost of the project to be financed.

(d) All obligations purchased and loans made pursuant to this section shall bear interest at a rate determined by the Federal Rural Development Credit Agency.

(e) In any case in which the Federal Rural Development Credit Agency undertakes to provide assistance to a State or local government under subsection (a) for the construction of a project for which any other department or agency of the Federal Government (under another law of the United States) will also provide funds—

(1) the assistance provided by the Rural Development Credit Agency under subsection (a) may be in the full amount needed by the State or local government to finance such project (including the amount of the funds which will be provided by such department or agency), but the funds to be provided by such department or agency with respect to such project shall become payable (notwithstanding any contrary provision in the law

under which they are payable) to the Rural Development Credit Agency in lieu of being paid directly to such government, and

(2) the Federal Rural Development Credit Agency may accept in return (A) an obligation or obligations of such State or local government covering only the difference between such full amount and the amount of the funds which are payable with respect to such project by such department or agency, plus (B) a commitment from such department or agency to pay the funds which are to be provided by it and are payable to the Agency as described in paragraph (1), in order to insure that such State or local government will not have to include within its debt limit that portion of the indebtedness incurred for the financing of such construction which is attributable to funds provided by such department or agency.

(f) The Federal Rural Development Credit Agency is authorized to enter into multilateral contracts and other agreements in order to assist and encourage further cooperation among States or among local governments which have common or related governmental problems.

(g) Except as otherwise specifically provided in this title, the Federal Rural Development Credit Agency may impose, or not impose, charges or fees for its services with the objective that all costs and expenses of its operations should be within its income derived from such operations.

(h) No loans, guarantees, or other assistance shall be extended to assist in relocating any business entity from one area to another, except that such limitation shall not be construed to prohibit assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such entity if the Executive Director finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment of the area of original location or in any other area where such entity conducts business operations, unless the Executive Director has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

SEC. 710. TECHNICAL ASSISTANCE.—The Federal Rural Development Credit Agency shall have, in addition to a staff adequately equipped in the field of development banking, personnel qualified to give advice in the following fields (and in any other field appropriately related to the Agency's activities):

(1) the Federal Government, particularly its or-

ganization and operation relating to State and local governments;

(2) the operation and administration of all Federal grant-in-aid programs;

(3) the administration, development, and operation of community facilities; and

(4) technical data and requirements in fields appropriately related to the Agency's activities, including the following:

(A) roads, hospitals, schools, and airports;

(B) urban mass transit systems and bridges;

(C) housing, municipal buildings, open spaces, and parks;

(D) courthouses;

(E) water and sewage facilities and air pollution controls;

(F) industrial and commercial development;

(G) rural manpower development and training;

(H) fishing and fisheries;

(I) forest production, marketing, and processing;

(J) minerals and mining;

(K) tourism and outdoor recreation;

(L) water, and water distribution, and solid waste disposal;

(M) multiple purpose water development;

(N) comprehensive area planning;

(O) community and neighborhood centers; and

(P) cooperative and other non-profit and self-help forms of private enterprise organization.

(b) The Agency shall give or provide for giving any necessary technical assistance under this section to applicants for assistance under this title. No fees for preliminary advice shall be charged, except that after an application has been accepted for processing, the Agency may charge reasonable fees for continued assistance under this subsection.

(c) The Agency is also authorized to engage in research and information gathering, and to undertake programs to facilitate the exchange of advanced concepts and techniques relating to municipal growth and development among State and local governments.

Sec. 711. Delegation of Duties and Powers to Institutions of the System.—The Federal Rural Development Credit Agency is authorized and directed, by order, rule, or regulation, to delegate to any Regional Bank or any District Rural Development Credit Agency such of the duties, powers, and authority of the Federal Rural Development Credit Agency with respect to such Regional Bank or District Rural Development Credit Agency or the officers and employees thereof, in the region wherein such Regional Bank or District Rural Development Credit Agency is located, as may be determined to be in the interest of effective administration. Any Regional Bank or District Rural Development Credit Agency to which any such duties, powers, or authority may be delegated, or any institution of the Rural Development Credit System to which any duty, power, or authority may be redelegated, is authorized and empowered to accept, perform, and exercise such duties, powers, and authority as may be so delegated to it, and may redelegate such powers, in accordance with rules and regulations of the Federal Rural Development Credit Board, to participating institutions whose major business is conducted in rural areas.

SEC. 712. AGREEMENTS FOR SHARING LOSSES.—The Federal Rural Development Credit Agency may enter into agreements with Regional Banks for sharing the gains and losses on loans or securities held therefor or acquired in the liquidation thereof, and Regional Banks are authorized to enter into any such agreements.

SEC. 713. FIRST LIEN.—The Federal Rural Development Credit Agency, any regional bank, any District Rural Development Credit Agency, or any participating institution shall have a first lien on the stock it issues, except on such stock held by the Executive Director, for the payment of any liability of the stockholder to any such bank, authority, or participant or to any two or all of them.

SUBTITLE G—FEDERAL RURAL DEVELOPMENT INVESTMENT EQUALIZATION ADMINISTRATION

SEC. 801. FINDINGS AND POLICY.—Congress finds that it is essential to the welfare, orderly growth, higher quality of life and domestic tranquillity in urban as well as rural areas to bring about a better balanced geographic distribution of improved community facilities, services, and public works as well as a better balanced geographic distribution of investments for future economic growth, and, that, because of the unique disadvantages of and higher costs of acquiring raw materials and delivering finished products to the ultimate consumer, more than improved access to national credit markets will be required to bring about a more desirable geographic balance of national growth. To provide the needed incentive for rural community development, in addition to the Rural Development Credit System, it is the policy of Congress to inaugurate and carry out a program of rural equalization incentive payments in lieu of the establishment of a special rural tax exemption or artificially low interest rates, which might be disruptive of national financial markets and orderly administration of Federal tax programs.

SEC. 802. INVESTMENT IN RURAL DEVELOPMENT.—The Federal Rural Development Credit Board shall cause to be established and staffed, under its direction and supervision, a Federal Rural Development Investment Equalization Administration independent of the Federal Rural Development Credit Agency and the Regional Banks to carry out programs of interest supplements and capital augmentation payments as authorized in this subtitle.

SEC. 803. ADMINISTRATOR.—(a) There shall be at the head of the Rural Development Investment Equalization Administration an Administrator who shall be appointed by and serve at the pleasure of the Federal Rural Development Credit Board subject to the approval of the President of the United States and shall serve at the pleasure of the President.

(b) The compensation of the Administrator shall be at the rate prescribed for positions in level IV of the Executive Pay Schedule provided for under subchapter II of chapter 53 of title 5, United States Code. The Federal Rural Development Credit Board shall fix the allowance for his necessary travel and subsistence expenses or per diem in lieu thereof.

SEC. 804. RURAL DEVELOPMENT INTEREST SUPPLEMENTS; ELIGIBILITY AND AMOUNT.—(a) Any private or public borrower of any institution of the Rural Development Credit System who is using the proceeds of the loan for a rural development project, and who cannot pay, from project earnings, in any fiscal year the full amount of the annual interest on his loan shall be eligible to receive, at the end of such fiscal year an interest supplement equivalent to the amount by which the interest due exceeds the greater of (1) the amount which the borrower can pay from project earnings for such year on the enterprise undertaken with the loan proceeds, or (2) an interest payment calculated at an interest rate of 1 per centum per annum.

(b) To establish his eligibility for an interest supplement, an applicant shall be required to prove conclusively that—

(1) the enterprise, community facility, service, or public work with respect to which the interest supplement is to be paid provides a specific addition to the preexisting volume of capital investment and job opportunities in the Nation and in the rural area where such enterprise, community facility, service, or public work is located and is not a replacement or substitution for investment and job opportunities elsewhere previously provided by the applicant or by a direct competitor;

(2) the enterprise, community facility, service, or

public work will make a substantial and definite contribution, by enhancement of the quality of life or increased income and employment in the rural area where located, to the attainment of the goals of a rational policy of balanced national growth, and of the purposes and policies of this title and of this subtitle;

(3) the enterprise is operated according to principles of prudent and efficient management, and in accordance with sound acceptable accounting principles, will sustain a net loss rather than positive earnings, if the full contractual interest rate is paid;

(4) the amount of interest supplement applied for is, as demonstrated by the audited accounts of the enterprise, not in excess of the amount for which the applicant is eligible in accordance with the provisions of subsection (a) of this section; and

(5) the project to be financed will not be in direct competition with another such project that is wholly financed by private enterprise.

(c) No applicant shall be eligible for an interest supplement under this section unless his books of account are open at all times for examination by agents or employees of the Farm Credit Administration and the General Accounting Office.

SEC. 805. RURAL DEVELOPMENT CAPITAL AUGMEN-

TATION PAYMENTS; ELIGIBILITY AND AMOUNT.—(a) Any borrower of any institution of the Rural Development Credit System, who has constructed or acquired improvements to real property and necessary equipment and working capital to establish and operate a new or expanded rural private economic enterprise, or rural community facility, or service, or rural public work to be located and operated in a rural area for the employment of or benefit to rural residents shall be eligible to apply for a rural development capital augmentation payment to be determined in accordance with the provisions of this section.

(b) To establish his eligibility for a rural development capital augmentation payment, an applicant shall be required to prove conclusively that—

(1) the enterprise, community facility, service, or public work to which the capital augmentation shall apply provides a definite addition to the pre-existing volume of capital investment and job opportunities in the Nation and in the rural area where located and is not a replacement of or substitution for investment or job opportunities elsewhere previously provided by the applicant or by a direct competitor;

(2) the enterprise, community facility or service, or public work will make a substantial contribution, through enhancement of the quality of life or increased

income and employment in the rural area where located, to the attainment of the goals of a rational policy of balanced national growth and of the purposes and policies of this title and of this subtitle;

(3) the project for which the capital augmentation payment is requested was constructed or acquired in accordance with principles of prudent and efficient management, and the amount was determined in accordance with sound acceptable accounting principles from data in the audited books of record of the applicant;

(4) that the amount of capital augmentation payment applied for is, as demonstrated by the audited accounts of the enterprise not in excess of the amount for which the applicant is eligible in accordance with the provisions of subsection (c) of this section; and

(5) the project to be financed will not be in direct competition with another such project that is wholly financed by private enterprise.

(c) The amount of any rural development capital augmentation payment shall not exceed the current discounted value, at the established interest rate of the Rural Development Credit System in the area, of the amount by which the amount computed under paragraph (1) is greater than the amount computed under paragraph (2):

(1) The annual amortization payment actually due

and payable by the applicant on any indebtedness incurred by him in constructing or acquiring the new or expanded improvements of real property or additions to equipment and working capital for which the application is made.

(2) The annual amortization payment, over an amortization period of the same length that could be made out of earnings by a prudent efficient manager who would utilize the facilities, works, equipment, or working capital to fulfill an effective rural development purpose within the capacity of those who will utilize the service, buy the product, or pay user charges, or to value the product at its rural location, taking into account scarcity of population settlement, median family incomes in the area, and the cost of transporting raw materials and finished products, as determined by the Rural Development Investment Equalization Administration under rules and regulations established by the Federal Rural Development Credit Board and approved by the General Accounting Office.

(d) No applicant shall be eligible for a rural development augmentation payment under this section unless his books of account are open at all times for examination by agents or employees of the Farm Credit Administration and the General Accounting Office.

SEC. 806. SUPERVISION BY FARM CREDIT ADMINISTRATION.—The Federal Rural Development Credit Board shall arrange with the Federal Farm Credit Board to utilize the services of the Farm Credit Administration for investigation, accounting, and administrative auditing of the work of the Rural Development Investment Equalization Administration and the Federal Rural Development Credit Agency and the other institutions of the Rural Development Credit System in an orderly, efficient, and effective manner. The Farm Credit Administration is authorized to provide such services on a mutually agreeable reimbursable basis.

SEC. 807. EXAMINATION OF BOOKS OF ACCOUNT.—As a condition of approval of any application, the applicant must agree to keep his books of account open at all times for examination by the Farm Credit Administration and the General Accounting Office.

SUBTITLE H—FEDERAL RURAL DEVELOPMENT CREDIT BOARD

SEC. 901. THE FEDERAL RURAL DEVELOPMENT CREDIT BOARD; NOMINATION AND APPOINTMENT OF MEMBERS; ORGANIZATION AND COMPENSATION.—(a) There is hereby established a Federal Rural Development Credit Board (hereinafter in this subtitle referred to as the "Board") composed of seventeen members, fifteen of whom shall be appointed by the President, by and with the advice and consent of the Senate, not more than eight of whom shall be from the same political party nor more than one from any

State. In making appointments to the Board the President shall select persons who are especially qualified to serve on the Board because of their education, training, and experience, shall attempt to provide a fair representation on the board of the different geographic regions of the United States and the several economic interests in rural development—farming, labor, cooperatives, local government, and private enterprise the President shall, before making appointments to the Board, receive and consider nominations made by the President pro tempore of the Senate of the United States for five appointments to the Board, not more than three of whom shall be from the same political party and not more than one from any Rural Development Bank Region, and shall receive and consider nominations made by the Speaker of the House of Representatives of the United States for five appointments to the Board not more than three of whom shall be from the same political party and not more than one from any Rural Development Bank Region. One member shall be the representative of the Secretary of Agriculture on the Farm Credit Board, and one member shall be the Governor of the Farm Credit Administration. The Executive Director and the Administrator of the Federal Rural Development Investment Equalization Administration shall be ex officio members of the Board and shall be eligible to vote on all matters except those affecting the terms of their own employment.

(b) All members of the Board shall be citizens of the United States and all members except the member from the Farm Credit Board and the Governor of the Farm Credit Administration and the ex officio members shall be legal residents of rural areas in which the Rural Development Credit System is authorized by this title to make, participate in, extend mortgage insurance in connection with, or guarantee rural development loans.

(c) The Board shall elect a chairman and vice chairman from among its appointed members. The Board shall elect a Secretary from among its members or from outside its membership. Such officers shall be elected for terms of one year and shall hold office until their successors have been elected.

(d) No member of the Board, other than the member from the Farm Credit Board, the Governor of the Farm Credit Administration, the Executive Director, and the Administrator of the Federal Rural Development Investment Equalization Administration shall, while serving as a member of the Board, be an officer or employee of the United States or of any State or of any of the institutions of the Rural Development Credit System or of the Farm Credit System.

(e) Appointed members of the Board shall be appointed for terms of six years, except that (1) a person appointed to fill an unexpired term shall serve only for the remainder of the term for which his predecessor was appointed, and (2) with respect to the first members appointed to such Board two members appointed by the President, two recommended by the President pro tempore of the Senate, and two recommended by the Speaker of the House of Representatives shall be appointed for terms of six years, as designated by the appointing authorities at the time of appointment, and two members appointed or recommended by each such authority shall be appointed for terms of four years, as designated by the appointing authority at the time of appointment and one member appointed or recommended by each such authority shall be appointed for a term of two years, as designated by the appointing authority at the time of appointment. A vacancy on the Board shall not affect the power of such Board to act and shall be filled in the same manner as originally filled. Members shall serve until their successors are duly appointed and qualified.

(f) The Board is authorized to establish its own rules of procedure for conducting its business, except that a majority of all members of the Board shall constitute a quorum for the transaction of its business.

(g) Each appointed member of the Board shall receive $200 a day for not more than seventy-five days of meetings each year and all members shall be reimbursed for travel and reasonable expenses incurred in attending meetings of such Board. Nothing in the preceding sentence shall be construed to limit the number of days of meeting each year to seventy-five days.

(h) The Board shall hold at least four regularly scheduled meetings a year and such additional meetings at such times and places as it may determine. Special meetings shall be held at any time at the call of the chairman or by any three members of such Board.

SEC. 902. POWERS OF THE BOARD.—The Board shall establish the general policy for the guidance of the Federal Rural Development Credit Agency, the Federal Rural Development Investment Equalization Administration, and all institutions of the Rural Development Credit System in carrying out this Act; may require such reports as it deems necessary from the institutions of the Rural Development Credit System; provide for the examination of the condition of and general supervision over the performance of the powers, functions, and duties vested in each such institution, and for the performance of all the powers and duties vested in the Federal Rural Development Credit Agency and in its Executive Director, and in the Rural Development Investment Equalization Administration and in its Administrator which, in the judgment of the Board, relate to matters of broad and general supervisory, advisory, or policy nature.

The Board shall function as a unit without delegating any of its functions to individual members, but may appoint committees and subcommittees for studies and reports for consideration by the Board. It shall not operate in an administrative capacity.

SEC. 903. INDIRECT PARTICIPATION BY PRIVATE FINANCIAL SOURCES.—(a) The Board is authorized on behalf of the Regional Banks and other institutions of the Rural Development Credit System to—

(1) issue bonds, debentures, and such other certificates of indebtedness as it may determine, and issue such securities on a competitive or negotiated basis as the Board may determine;

(2) buy and sell securities it has issued or guaranteed or whose mortgages it has insured or in which it has invested;

(3) invest funds not needed in its financing operations in such property and obligations as the Board may determine; and

(4) guarantee securities in which it has invested for the purpose of facilitating their sale.

(b) The Board shall arrange with the Federal Farm Credit Board to utilize on a reimbursable basis the security selling agency services of the institutions of the Farm Credit System.

(c) Except as hereinafter provided in this subsection, the Secretary of Agriculture (hereinafter referred to in this subsection as the "Secretary") is authorized, upon such terms and conditions as he may deem appropriate, to guarantee the timely payment of principal and interest on such obligations as shall be issued by the Board on behalf of Regional Banks. The Secretary shall collect from the Board a reasonable fee for any guaranty under this subsection and shall make such charges as he may determine to be reasonable for the analysis of any obligation proposed to be issued by the Board. In the event the Board is unable to make any payment of principal of or interest on any obligation guaranteed under this subsection, the Secretary shall make such payment as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection. The Secretary may not guarantee payment of any obligation of the Board issued after the total amount of stock held by the Executive Director in the several Regional Banks is equal to less than 50 per centum of the total obligations of such banks outstanding.

SEC. 904. FEDERAL PAYMENTS TO THE BOARD.—(a) With respect to such amounts of loans of the Regional Banks as may be specified in appropriation Acts, the Secretary of the Treasury is authorized to make, and to contract to make, annual payments to the Board in such amounts as are necessary to reimburse the Rural Development Investment Equalization Agency for needed interest supplements and rural capital augmentation and to subscribe to capital stock of Regional Banks that may be tendered by the Board.

(b) There are authorized to be appropriated to the Secretary of the Treasury such sums as may be necessary to carry out his responsibilities under this Act, including such sums as may be necessary to make payments required by contracts entered into by the Secretary of the Treasury pursuant to subsection (a) of this section.

SEC. 905. FEDERAL INSURANCE OF OBLIGATIONS TO THE BOARD.—(a) The Secretary of Agriculture, upon application by the Board, is authorized to insure any loan made, discounted, guaranteed or insured by the Board including, for purposes of this section, any obligation purchased, insured, or guaranteed by it, and to issue a commitment for the insurance of any such loan prior to the date of its execution or disbursement thereon upon a determination that all of the applicable criteria established by or under this title will be met with respect to such loan.

(b) The insurance of any loan under subsection (a) and any payments pursuant thereto shall be made on such terms and conditions, and in such manner and form, as the

Secretary shall by regulations prescribe, and shall provide for the payment in full to the Board of the outstanding principal balance of the loan together with any unpaid interest, upon default by the borrower, in accordance with procedures set forth in such regulations.

(c) The Secretary is authorized to charge and collect premiums for insurance under this section. Such premiums shall be fixed at the lowest possible levels which the Board and the Secretary agree to be reasonable and sufficient to keep the insurance program under this section in a sound and secure condition and maintain the fund established by subsection (d) of this section at a level adequate to meet all anticipated losses.

(d) (1) There is established a revolving fund to be used by the Secretary in carrying out his functions under this section. All premiums charged as provided in subsection (c), and all other receipts from the insurance program under this section, shall be deposited in the fund. Moneys in the fund not needed for the payment of current operating expenses or the payment of insurance under the program may be invested in bonds or other obligations guaranteed as to principal and interest by the United States.

(2) There is authorized to be appropriated as initial capital for the revolving fund established by paragraph (1) the sum of $5,000,000.

(e) In the performance of, and with respect to, the functions, powers, and duties vested in him by this title, the Secretary shall (in addition to any authority otherwise vested in him) have the functions, powers, and duties set forth by law with respect to loans insured under the Consolidated Farm and Rural Development Act.

(f) There are authorized to be appropriated to the Secretary of Agriculture such sums as may be necessary to carry out his responsibilities under this title.

SUBTITLE I—GENERAL PROVISIONS

SEC. 1001. FINANCIAL AND OTHER SUPERVISION.—The Rural Development Credit System and all the institutions thereof shall be subject to the supervision of the Farm Credit Administration with respect to all procedures relating to financial operations, including audits; and shall be subject to the supervision of the Administrator of the Rural Enterprise and Community Development Administration of the Department of Agriculture with respect to the appraisal of real and personal property used or to be used as security for loans, obligations, and mortgages insured or guaranteed under this title.

SEC. 1002. EXAMINATIONS AND REPORTS; AUDITS.—(a) Except as provided in this Act, each institution of the Rural Development Credit System, and each of its agents, at such times as the Federal Rural Development Credit Board may determine, shall be examined and audited by examiners of the Farm Credit Administration and by auditors of the General Accounting Office, but in no event shall any such institution be examined and audited less frequently than once a year. If the Executive Director determines it to be necessary or appropriate, the required examinations and audits may be made by independent certified public accountants, certified by a regulatory authority of a State, in accordance with generally accepted auditing standards. Upon request of the Executive Director or any institution of the System, credit examiners shall also make examinations of any organization other than a national bank, to which, or with which, any institution of the Rural Development Credit System contemplates making a loan or discounting paper of such organization or delegating authority under this title. For the purposes of this Act, examiners of the Farm Credit Administration shall be subject to the same requirements, responsibilities, and penalties as are applicable to examiners under the National Bank Act, the Federal Reserve Act, the Federal Deposit Insurance Act, and other provisions of law and shall have the same powers and privileges as are vested in such examiners by law. A report of each audit of the Rural Development Credit System for any fiscal year shall be made by the Farm Credit Administration to the President of the United States and to the Congress not later than six months following the close of such fiscal year. The Farm Credit Administration shall be reimbursed by the Federal Rural Development Credit Agency for the cost of performing such audits.

(b) The Federal Rural Development Credit Board shall make a report to the Congress at the end of each calendar year on the condition of economic growth in geographic areas of the country in which it operates, the condition and experience of the Regional Banks and the Federal Rural Development Investment Equalization Administration. The Board shall include in such report such recommendations for legislative action as it deems necessary to improve the operation of the Rural Development Credit System. The Federal Rural Development Credit Board may require the Federal Rural Development Credit Agency, the Regional Banks and the Federal Rural Development Investment Equalization Administration, and the District Rural Development Credit Agencies to submit to it similar annual reports.

SEC. 1003. CONDITIONS OF OTHER BANKS AND LENDING INSTITUTIONS.—The Comptroller of the Currency is authorized and directed, upon request of the Farm Credit Administration to furnish for confidential use of an institution of the Rural Development Credit System such reports, records, and other information as he may have available relating to the financial condition of national banks through, for, or with which such institution of the System has made or contemplates making discounts, loans, or delegations of power and to make such further examination, as may be agreed, of organizations through, for, or with which such institution of the Rural Development Credit System has made or contemplates making discounts, loans, or delegations of power.

SEC. 1004. CONSENT TO THE AVAILABILITY OF REPORTS AND TO EXAMINATIONS.—Any organization other than State banks, trust companies, and savings associations shall, as condition precedent to securing discount privileges or delegated powers with a bank of the Rural Development Credit System, file with such bank its written consent to examination by Farm Credit Administration examiners as may be directed by the Farm Credit Administration; and State banks, trust companies, and savings associations may be required in like manner to file a written consent that reports of their examination by constituted State authorities may be furnished by such authorities upon the request of the Farm Credit Administration.

SEC. 1005. REPORTS ON CONDITIONS OF INSTITUTIONS RECEIVING LOANS OR DEPOSITS OR REDELEGATED POWERS.—The executive departments, boards, commissions, and independent establishments of the Government of the United States, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Reserve banks are severally authorized under such conditions as they may prescribe, upon request of the Farm Credit Administration, to make available to the Farm Credit Administration or to any institution of the Rural Development Credit System in confidence all reports, records, or other information relating to the condition of any organization to which such institution of the System has made or contemplates making a loan or for which it has or contemplates discounting paper, or which it is using or contemplates using as a custodian of securities or other credit instruments, or which it is using as or contemplates using as a depository, or to which it has or contemplates delegating powers under this title. The Federal Reserve banks in their capacity as depositories, agents, and custodians for bonds, debentures, and other obligations issued by the banks of the Rural Development Credit System or book entries thereof are also authorized and directed, upon request of the Farm Credit Administration, to make available for audit by farm credit examiners all appropriate books, accounts, financial records, files, and other papers.

Sec. 1006. Jurisdiction.—Each institution of the Rural Development Credit System shall for the purposes of jurisdiction be deemed to be a citizen of the State, commonwealth, or District of Columbia in which its principal office is located. No district court of the United States shall have jurisdiction of any action or suit by or against any unit of local general government or any private financing institution exercising delegated powers under this title, upon the ground that it was incorporated under this title or that the United States owns any stock thereof, nor shall any district court of the United States have jurisdiction, by removal or otherwise, of any suit by or against such institution except in cases by or against the United States or by or against any officer of the United States and except in cases by or against any receiver or conservator of any such institution appointed in accordance with the provisions of this title.

SEC. 1007. STATE LEGISLATION.—Whenever it is determined by the Federal Rural Development Credit Agency, or by judicial decision, that a State law is applicable to the obligations and securities authorized to be held by the institutions of the Rural Development Credit System under this title, which law would provide insufficient protection or inadequate safeguards against loss in the event of default, the Federal Rural Development Credit Agency may declare such obligations or securities to be ineligible as security for the issuance of new notes, bonds, debentures, and other obligations under this Act.

SEC. 1008. TAX EXEMPTION.—The Federal Rural Development Credit Board, the Regional Banks, and the District Rural Development Credit Agencies shall be exempt from Federal, State, and local corporate income taxes and from all other Federal, State, and local taxes except that (1) the real property and tangible personal property of such Board, banks, and agencies shall be subject to Federal, State, and local taxation to the same extent, according to its value, as other similar property held by other persons is taxed, (2) the income from any obligations purchased by any such institution of the Rural Development Credit System from any Federal or State governmental or quasi-governmental body, and any obligation issued by any such institution of the Rural Development Credit System shall be subject to Federal, State, and local taxation to the same extent as the income or obligations of private corporations are taxed; and (3) the Regional Banks shall be liable for the franchise tax provided in section 614 of this Act.

SEC. 1009. NATURE OF OBLIGATIONS.—(a) All obligations issued by the Federal Rural Development Credit Board or Regional Banks shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or of any officer or employee thereof. All obligations issued by the

Rural Development Credit System pursuant to this Act shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are direct obligations of or obligations guaranteed as to principal or interest by the United States.

SEC. 1010. AMENDMENTS TO OTHER LAWS.—(a) Section 5315 of title 5, United States Code, is amended by adding at the end thereof the following:

"(95) Executive Director of the Rural Development Credit Agency.

"(96) Administrator of the Rural Development Investment Equalization Administration."

(b) Section 5316 of title 5, United States Code is amended by adding at the end thereof the following:

"(132) Deputy Executive Director of the Rural Development Credit Agency."

SEC. 1011. SEPARABILITY.—If any provision of this Act, or the application thereof to any person or in any circumstances, is held invalid, the remainder of this Act and the application of such provision to other persons or in other circumstances shall not be affected thereby.

SEC. 1012. RESERVATION OF RIGHT TO AMEND OR REPEAL.—The right to alter, amend, or repeal any provision or all of this Act is expressly reserved.

SEC. 1013. APPROPRIATIONS.—(a) There is authorized to be appropriated to the Federal Rural Development Credit Agency not to exceed $200,000,000 annually for not to exceed ten years for the purchase of capital stock of the Regional Banks.

(b) There is authorized to be appropriated not to exceed $300,000,000 annually to the Federal Rural Development Investment Equalization Administration for interest rate supplements and capital augmentation payments authorized under subtitle G of this title.

(c) In addition to the funds authorized to be appropriated by subsections (a) and (b), there are authorized to be appropriated, without fiscal year limitation, such additional sums as may be necessary to carry out the purposes of this Act.

SECTION-BY-SECTION EXPLANATION OF S. 2223

TITLE I—AMENDMENTS TO THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

Section 101. *Short Title*. This section would change the title of the Consolidated Farmers Home Administration Act of 1961 to the "Consolidated Farm and Rural Development Act."

Section 102. *Loans for Rural Development Projects*. At present, section 306 of the Consolidated Farmers Home Administration Act authorizes the making or insuring of loans to associations, including corporations not operated for profit, and public and quasi-public agencies for a number of rural development activities, including water and drainage and waste disposal facilities. Section 102 of the bill would preserve this existing authority, but extend it to provide for the making or insuring of loans to any prospective borrower for any rural community development project, including those providing employment for, as well as those serving farmers, ranchers, farm tenants, farm laborers and other rural residents. Section 104 would impose an additional requirement that loans under this section be not inconsistent with an areawide plan of a multi-jurisdictional planning and development district.

Section 103. *Grants for Rural Development Projects*. Grants at present under section 306 are restricted to water and waste disposal projects. This section would extend the authority for grants to other rural community development projects and increase the maximum amount of grants authorized in any fiscal year from $100 million to $300 million.

Section 104. *Consistency with Comprehensive Plans*. Existing authority now requires the Secretary to determine, before making any grant for a water or waste disposal project, that the project is consistent with planned development under State, county, or municipal plans. Section 104 of the bill would extend this requirement to other rural community development projects and specifically require that for the purposes of loans and grants, all proposed projects be consistent with plans of multi-jurisdictional agencies having jurisdiction over the area in which the proposed project is to be located.

Section 105. *Definitions*. This section—

(1) Redefines rural areas as used in section 306 of the Consolidated Farmers Home Administration Act to exclude any area in any city or town which has a population in excess of 35,000 inhabitants and any urbanized or urbanizing area immediately adjacent thereto. Existing law excludes any area in any city or town which has a population in excess of 5,500 inhabitants; and

(2) Defines the term "rural community development projects" in exactly the terms used in the Administration's Rural Revenue Sharing bill.

Section 106. *Reorganization*. This section would divide the Farmers Home Administration into a Farm Development Administration and a Rural Enterprise and Community Development Administration and place these two Administrations under an additional Assistant Secretary of Agriculture—Rural Development Credit, to be appointed by the President with the advice and consent of the Senate. Like the other Assistant Secretaries he would be compensated at Level IV of the Executive Pay Schedule, which is currently $38,000 per annum. The administrators of the two new Administrations would receive the same compensation as the Administrator of the Rural Electrification Administration. They would be in Level V of the Executive Schedule which is currently $36,000 per annum.

TITLE II—FEDERAL RURAL DEVELOPMENT CREDIT SYSTEM

SUBTITLE A—FINDINGS AND PURPOSE, DEFINITIONS

Section 201. *Findings and Purposes*. This section makes findings with respect to the importance of farming and forestry and the need of the farm family and the Nation for healthy rural communities with adequate community facilities. It is the purpose of the Act to provide for the financing of such facilities.

Section 202. *Definitions*. This section defines "Rural Development Credit System," "rural area," "rural development purpose," "local general government," "Regional Bank," "region," "Federal Rural Development Credit Board," "District Rural Development Credit Agency," "participating institution," "Federal Rural Development Credit Agency," "Executive Director," and "financial assistance."

The term "rural area" is defined as any area within a State or the Commonwealth of Puerto Rico which is not part of, or contiguous to, any municipality having a population of 35,000 or more, but this definition may be broadened by regulation by the Federal Rural Development Credit Board after consultation with the Director of the Office of Management and Budget, the Secretary of Agriculture, and the Secretary of Housing and Urban Development, if the Board determines that such action because of special circumstances applicable to such areas is consistent with the purpose of the Act.

The term "rural development purpose" means any public or private project that will contribute to a reasonable national growth policy and to the enhancement of any rural area as a place to live.

The Rural Development Credit System consists of the following—

(1) A supervisory Federal Rural Development Credit Agency whose chief executive officer is called the Executive Director, and whose policy-making board is called the Federal Rural Development Credit Board;

(2) A Federal Rural Development Investment Equalization Administration to provide subsidies for rural development purposes; and

(3) the following institutions which will make loans for rural development purposes:

(a) Participating institutions (also known as Participating Rural Development Financial Institutions)—Any local bank or other financial institution or any unit of local government, which applies to be, and is designated a participating institution under Subtitle C;

(b) District Rural Development Credit Agencies—Any financial agency of a multi-jurisdictional planning and development district or a State upon application to, and designation by the appropriate Regional Rural Development Credit Bank under Subtitle D. These would be chartered as instrumentalities of the United States; and

(c) 10 Regional Banks (also known as Regional Rural Development Credit Banks) established in section 301.

In addition, "cooperating financial institutions" as described in section 404(c) may participate in loans on behalf of District Rural Development Credit Agencies.

SUBTITLE B—BORROWERS AND AVAILABILITY OF LOANS

Section 301. *Availability of Rural Development Credit.* This section provides that any borrower for a rural development purpose shall be eligible for the credit services of Rural Development Credit System Institutions serving its area.

Section 302. *Eligibility.* The eligibility of potential borrowers is to be determined in accordance with criteria established by the District Rural Development Credit Agency with the approval of the appropriate Regional Rural Development Credit Bank and in accordance with the rules and regulations of the Federal Rural Development Credit Agency and the policies prescribed by the Federal Rural Development Credit Board. Loans are restricted to borrowers who cannot obtain credit elsewhere.

Section 303. *Terms and Conditions.* Loan terms and conditions are to be established by the appropriate Regional Rural Development Credit Bank subject to the rules and regulations of the Federal Rural Development Credit Agency and the policies of the Federal Rural Development Credit Board.

Section 304. *Security.* The amount of security to be required would be determined by the District Rural Development Credit Agency.

Section 305. *Required Purchase of Capital Stock.* This section requires each borrower to purchase stock in the District Rural Development Credit Agency in the amount of 5 to 10 percent of the loan as determined by the Federal Rural Development Credit Board.

SUBTITLE C—PARTICIPATING INSTITUTIONS

Section 401. *Designation.* Any bank or other financial institution making loans in rural areas for rural development purposes and any unit of local general government shall, upon application, be considered for designation as a Participating Rural Development Financial Institution hereinafter called "Participating Institution."

Section 402. *Functions of Participating Institutions.* Participating Institutions are authorized to—

(1) Borrow from and make loans for District Rural Development Credit Agencies;

(2) Make loans guaranteed or insured by a Regional Rural Development Credit Bank;

(3) Issue obligations for purchase by the District Rural Development Credit Agencies; and

(4) Perform such other duties as the District Rural Development Credit Agency may delegate.

Section 403. *Endorsement by Participating Institutions.* This section requires participating institutions to endorse and assume full responsibility for obligations discounted by them to the District Rural Development Credit Agency.

Section 404. *Purchase of Capital Stock.* Borrowers from participating institutions are required to purchase stock in the District Rural Development Credit Agency under which the participating institution operates in the amount of 5 to 10 percent of any loan made to them on behalf of the District Rural Development Credit Agency. In addition, the institution would be required to own capital stock in the District Rural Development Credit Agency in an amount equal to one percent of the outstanding loans in which it has participated on behalf of such District Rural Development Credit Agency. Any financial institution making rural development loans may, without designation as a participating institution, (1) purchase voting stock in the District Rural Development Credit Agency, and (2) participate in loans on behalf of such agency as a "cooperating financial institution."

Section 405. *Governance of Participating Institutions.* This section provides for rules and regulations governing participating institutions.

Section 406. *Certificates of Participation.* Each participating institution is to receive a certificate certifying that it is an official participating rural development financial institution. Designation of participating institutions is subject to approval of the Federal Rural Development Credit Board.

SUBTITLE D—DISTRICT RURAL DEVELOPMENT CREDIT AGENCIES

Section 501. *Designation and Charters.* Any financial agency of a multi-jurisdictional planning and development district of a State may upon application to, and approval by, the Regional Rural Development Credit Bank serving its area, be designated a District Rural Development Credit Agency and chartered as an instrumentality of the United States. District Rural Development Credit Agencies may be required to purchase stock in the Regional Rural Development Credit Bank in such amount as may be required by such Bank as a condition of approval. The Executive Director of the Federal Rural Development Credit Agency may veto the approval of, and is to prescribe the organization, management, and conduct of the business of, any District Rural Development Credit Agency.

Sections 502, 503, and 504. *Governing Board, General Corporate Powers, and Capital Stock.* These sections deal with the Boards of Directors, the general corporate powers, and the capital stock of the District Rural Development Credit Agencies. The number, terms, qualifications, and election of Board Members would be in accordance with State law and its Federal charter.

Section 505. *Application of Earnings.* This section provides for the manner in which earnings of District Rural Development Credit Agencies after providing for valuation reserves against loan assets, shall be applied to the restoration of capital impairment, establishment and maintenance of surplus accounts and stock participation or cash distributions.

Section 506. *Loans by District Rural Development Credit Agencies.* This section authorizes District Rural Development Credit Agencies to make loans for rural development purposes through participating institutions or directly in any rural area in which there is no participating institution able and willing to supply the credit needs of the applicant. Loans would bear interest and be subject to other terms and conditions determined under regulations prescribed by the Board of Directors of the Agency with the approval of the Federal Rural Development Credit Agency.

Section 507. *Other Services.* This section authorizes each District Rural Development Credit Agency to provide technical assistance and financial related services to borrowers, applicants and participants.

SUBTITLE E—REGIONAL RURAL DEVELOPMENT CREDIT BANKS

Section 601. *Establishment, Title, Number.* This section provides for the establishment of ten Regional Rural Development Credit Banks.

Section 602. *Corporate Powers.* This section provides for the corrorate powers of each Regional Rural Development Credit Bank.

Section 603. *Regional Rural Development Credit Bank Stock*. This section provides for the issuance by the Bank of various classes of voting and non-voting stock and evidences of indebtedness, and for the application of the earnings of the Bank.

Section 604. *Loans*. The Regional Rural Development Credit Banks are authorized to—

(1) Finance real or personal property, working capital, and operating expenses in connection with loans of the District Rural Development Credit Agencies to finance any rural development purpose project;

(2) Provide financing for the construction or improvement of any rural development purpose project; and

(3) Insure rural development purpose project construction improvement or expansion borrowers against damage or casualty loss in connection with such project.

Section 605. *Interest Rates and Other Charges*. Financing by Regional Rural Development Credit Banks shall bear interest and be on such other terms and conditions as may be determined by the Board of Directors of the Bank, it being the objective to provide such financing at the lowest reasonable cost on a sound business basis.

Section 606. *Eligibility*. Financing and insurance provided by this title would be made available to any applicant therefor if—

(1) The application is endorsed by the multi-jurisdictional governmental planning and development district, if any, established by the legislature or Governor of the State certifying that the proposed project is consistent with the current comprehensive development plan for such district;

(2) The applicant demonstrates that the project will not result in the geographic transfer of employment or business activities now provided by the applicant;

(3) The applicant demonstrates that he has been unable to obtain needed financial assistance from other private or public sources at reasonable rates and conditions;

(4) The applicant demonstrates that he can meet the scheduled payments;

(5) The applicant demonstrates that the project will operate primarily in a rural area for the benefit of rural residents and promises to make a net increase in number of jobs, quality of life, or median family income in the rural areas served;

(6) The applicant demonstrates and certifies that neither the project nor its personnel or employees will be used for the purpose of engaging the religious or partisan political activities.

Section 607. *Security*. Loans are to be secured by the best security available and by the endorsement of the appropriate District Rural Development Credit Agency and participating institution.

Section 608. *Services Related to Borrowers' Operations*. This section authorizes the Regional Rural Development Credit Banks to provide technical assistance to District Rural Development Credit Agencies, participating institutions, loan applicants, and other financial institutions in rural areas.

Section 609. *Loans Through Agencies, Participating Institution*. The Regional Rural Development Credit Banks are to make financial assistance available to eligible borrowers through District Rural Development Credit Agencies and participating institutions in the area served by such bank. If no District Rural Development Credit Agency or participating institution is available to handle the application, the bank may make the loan through any other financial institution or directly to the borrower. The applicant shall purchase stock of the bank in an amount equal to not less than $5.00 and not more than $10.00 for each $100 of the loan proceeds.

Section 610. *Eligibility of Financial Institutions*. The eligibility of any financial institution to receive or handle loans for any Regional Rural Development Credit Bank is to be determined by such bank on the basis of an application and in accordance with criteria established by the Rural Development Credit Agency under rules and regulations of the Rural Development Credit Board. Such institutions shall be eligible to borrow from such Regional Bank.

Section 611. *Boards of Directors*. This section provides for a 12-member bipartisan Board of Directors for each Regional Rural Development Credit Bank. Different methods are provided for their appointment depending upon the amount of stock in the bank held by the Executive Director. The Board would elect a chairman from among its members and would elect a President who would be an ex-officio member of the Board and such other officials and employees as may be required for the necessary and effective operation of the bank. Members would receive $100 for each day spent in the performance of their official duties, but not more than $7,500 in any year. A Board member who was an official of the United States or of any State would not receive pay.

Section 612. *Capitalization of Regional Rural Development Credit Banks.* This section authorizes the President of each Regional Rural Development Credit Bank to issue its pro rata share of the amount of outstanding capital stock of the Rural Development Credit System as determined by the Federal Rural Development Credit Board. The Executive Director is authorized to purchase non-voting stock in the same amount the Bank is authorized to issue.

Section 613. *Governance of Policies, Programs and Procedures of Regional Rural Development Credit Banks.* The Federal Rural Development Credit Board is to establish regulations to govern the programs and procedures of the Regional Rural Development Credit Banks during any period in which the Executive Director holds stock in such bank, but the banks are conclusively presumed to be acting in accordance with such regulations in all their actions.

Section 614. *Stock Purchased by Executive Director, Retirement, Franchise Tax, Revolving Fund.* This section authorizes the Executive Director on behalf of the United States to purchase stock in any Regional Rural Development Credit Bank to help such bank inaugurate lending operations, or meet emergency credit needs of borrowers. The Executive Director may require the bank to retire this stock whenever it has resources available and the need for such investment is reduced for any year or part thereof in which the Executive Director holds stock in the bank. The bank, after making provision for reserve and surplus funds as provided in section 603(e), shall pay to the United States a franchise tax equal to the lower of: (1) 25 percent of its net earnings, or (2) a rate of return based on the average annual rate of interest on certain public debt issues of the United States and the number of days such stock is outstanding during the year.

Section 615. *Subscription by the United States of Initial and Additional Capital.* This section authorizes the Secretary of the Treasury to deposit any money in the Treasury not otherwise appropriated for the temporary use of any Regional Rural Development Credit Bank to earn interest at a rate not exceeding the current rate charged for other Government deposits or 5 percent, whichever is lower.

Section 616. *Power to Borrow, Issue Notes, Bonds, Debentures and Other Obligations.* This section authorized each Regional Rural Development Credit Bank to borrow money in such sums as it may determine.

Section 617. *Aggregate of Obligations, Collateral.* This section limits the long term obligations of Regional Rural Development Credit Banks to twenty times the capital and surplus of all the Regional Banks primarily liable thereon, or such lesser amount as the Federal Rural Development Credit Agency shall establish by regulation.

Each bank is to maintain free from any lien or other pledge notes representing loans made under the authority of this Act, obligations of the United States, other readily marketable securities or cash in an aggregate value equal to the total amount of long-term obligations for which the Bank is primarily liable.

Section 618. *Liability of Banks.* Each Regional Rural Development Credit Bank would be liable on its own obligations and for interest payments on obligations of other Regional Rural Development Credit Banks. In addition each such Bank would be primarily liable for the portion of any issue of consolidated obligations made on its behalf and jointly and severally liable for the payment of any additional sums when called upon the Federal Rural Development Credit Agency to make payments of interest or principal which any other such bank primarily liable therefor is unable to make.

Section 619. *Finance Committee.* This section provides for a finance committee composed of the Presidents of the Regional Rural Development Credit Banks to determine the amount, maturities, rates of interest and participation by the several banks in each issue of joint or consolidated obligations.

Section 620. *Bonds as Investments.* Bonds and other similar obligations issued under the authority of this title shall be lawful investments for a fiduciary and may be accepted as security for all public deposits.

Section 621. *Purchase and Sale by Federal Reserve System.* Obligations issued under this title may be bought and sold by any member of the Federal Reserve System; and (to the same extent and subject to the same limitations as are placed upon the purchase and sale of State, county, district and municipal bonds under section 14(b) of the Federal Reserve Act) by any Federal Reserve Bank.

Section 622. *Purchase and Sale of Obligations.* Each Regional Rural Development Credit Bank may purchase its own obligations and the obligations of any other such bank and may provide for the sale of obligations issued by it or issued jointly with one or more other such banks. The sales agency of the Farm Credit System is to be utilized on a reimbursable basis for the purchase and sale of these obligations.

Section 623. *Fiscal Agency*. This section provides for fiscal agency to be established by the Regional Rural Development Credit Banks to carry out such of their functions relating to the issuance, marketing and handling of obligations as may be required.

Section 624. *Merger of Similar Banks*. This section authorizes merger of Regional Rural Development Credit Banks upon approval of the majority of their stockholders and the Federal Rural Development Credit Agency.

Section 625. *Board of Directors for Merged Bank*. The board of directors for a merged bank shall be composed of directors elected by the boards of the banks being merged; but the bylaws of the merged bank may, with the approval of the Federal Rural Development Credit Agency and subject to rules and regulations established by the Federal Rural Development Credit Board provide for a different number of directors, selected in a different manner.

Section 626. *Voluntary Liquidation, Insolvency*. This section prohibits any institution of the system from going into voluntary liquidation without the consent of the Federal Rural Development Credit Agency and for appointment by the Executive Director of a conservator for any Regional Rural Development Credit Bank which becomes insolvent.

SUBTITLE F—FEDERAL RURAL DEVELOPMENT CREDIT AGENCY

Section 701. *Federal Rural Development Credit Agency. Executive Director*. This section establishes an independent agency to be known as the Federal Rural Development Credit Agency to be headed by an Executive Director and to be responsible for carrying out the programs provided for in this title.

Section 702. *Appointment of Executive Director, Salary and Expense Allowance*. The Executive Director is to be appointed by the Federal Rural Development Credit Board, except that during any period in which he holds stock in any Regional Rural Development Credit Bank his appointment shall be subject to approval by the President and he shall serve at the pleasure of the President. His compensation would be fixed at the rate prescribed for positions in level IV of the Executive Pay Schedule which currently is $38,000 per annum.

Section 703. *Compliance with Board Orders*. The Executive Director is to carry out the policies of the Federal Rural Development Credit Board.

Section 704. *Rural Development Credit Organization*. The Executive Director is authorized to appoint and employ personnel.

Section 705. *Seal*. This section provides for a seal of the Federal Rural Development Credit Agency to be adopted by the Executive Director and to be judicially noted.

Section 706. *Administrative Expense*. This section authorizes the Federal Rural Development Credit Agency to make necessary expenditures for proper administration of the Act.

Section 707. *Allocation of Expenses*. This section provides for the assessment of the institutions of the system for their appropriate share of the cost of administering this title. During the first five fiscal years of operation appropriations would be authorized to augment such assessments. At the end of each fiscal year, the Agency would re-determine the appropriate assessment for each institution and appropriate adjustments would be made.

Section 708. *Enumerated Powers*. This section enumerates the powers, functions and responsibilities of the Federal Rural Development Credit Agency. In general they provide for the supervision and direction of the system. They include provisions for modifying the territory of any Regional Rural Development Credit Bank, issuing Federal charters for institutions of the system, and making investments in stock of the institutions of the system out of stock subscribed by the Secretary of the Treasury, and requiring the retirement of such stock.

Section 709. *Special Powers*. This provision authorizes the Federal Rural Development Credit Agency to purchase or sell any obligation of a State or local government issued wholly or partly to finance any rural development purpose project, facility or service; otherwise finance any such project; facility or service; or make loans to facilitate economic, physical and social development in rural areas.

Section 710. *Technical Assistance.* This section requires the Federal Rural Development Credit Agency to employ personnel qualified in a number of specific fields related to the agency's activities, and to give, or provide for giving, necessary technical assistance to applicants for assistance under this title.

Section 711. *Delegation of Duties and Powers to Institutions of the System.* This section authorizes the Federal Rural Development Credit Agency to delegate to any Regional Rural Development Credit Bank or any District Rural Development Credit Agency any of its duties with respect to such bank or agency, and provides for the redelegation of any duties of any institution of the Rural Development Credit System.

Section 712. *Agreements for Sharing Losses.* This section authorizes the Federal Rural Development Credit Agency to enter into agreements with Regional Rural Development Credit Banks to share gains and losses on securities held therefor or acquired in liquidation thereof.

Section 713. *First Lien.* The Federal Rural Development Credit Agency, the Regional Rural Development Credit Banks, the District Rural Development Credit Agencies, and participating institutions are each given a first lien on stock issued by them (except in the case of stock held by the Executive Director or the Secretary of the Treasury) for the payment of any liability of the stockholder to any such entity or entities.

SUBTITLE G—FEDERAL RURAL DEVELOPMENT INVESTMENT EQUALIZATION ADMINISTRATION

Section 801. *Findings and Policy.* This section finds that incentive payments are needed for rural community development and declares it to be the policy of Congress to carry out a program of such payments.

Section 802. *Investment in Rural Development.* This section provides for the establishment by the Federal Rural Development Credit Board of a Federal Rural Development Investment Equalization Administration, independent of the Federal Rural Development Credit Agency and Regional Rural Development Credit Banks, to carry out programs of interest supplements and capital augmentation payments.

Section 803. *Administrator.* The Rural Development Investment Equalization Administration would be headed by an Administrator appointed by the Federal Rural Development Credit Board, except that during any period that the Executive Director holds any stock in any of the Regional Rural Development Credit Banks, his appointment would be subject to the approval of the President and he would serve at the pleasure of the President. He would be compensated at Level IV of the Executive Pay Schedule, which currently is $38,000 per annum.

Section 804. *Rural Development Interest Supplements, Eligibility and Amount.* Any borrower of any institution of the Federal Rural Development Credit System who cannot pay from project earnings in any fiscal year the full amount of the annual interest on his loan shall be eligible to receive at the end of such fiscal year an interest supplement equivalent to the amount by which the interest due exceeds the greater of (1) the amount which can be paid from project earnings, or (2) one percent of the loan.

Section 805. *Rural Development Capital Augmentation Payments, Eligibility and Amount.* Any borrower or person eligible to borrow from any institution of the Rural Development Credit System who has constructed or acquired improvements to real property and necessary equipment and working capital to establish and operate a new or expanded rural community facility or service may apply for a Rural Development capital augmentation payment. The amount of any such payment shall not exceed the current discounted value of the amount by which—

(1) The annual amortization payment actually due on any indebtedness exceeds;

(2) The annual amortization payment that could be made out of earnings from prudent operation of the project.

Section 806. *Supervision by Farm Credit Administration.* Investigating, accounting, and administrative auditing services of the Farm Credit Administration would be utilized on a reimburseable basis by the Federal Rural Development Investment Equalization Administration and the Federal Rural Development Credit Agency.

Section 807. *Examination of Books of Account.* As a condition of approval of any application the applicant would be required to keep his books of account open at all times for examination by the Farm Credit Administration and the General Accounting Office.

SUBTITLE H—FEDERAL RURAL DEVELOPMENT CREDIT BOARD

Section 901. *Federal Rural Development Credit Board.* This section creates a bipartisan Federal Rural Development Credit Board composed of 17 members. Fifteen members, each from a different State, would be appointed by the President with the advice and consent of the Senate. One member would be the representative of the Secretary of Agriculture on the Farm Credit Board, and one member would be the Governor of the Farm Credit Administration. The Executive Director and the Administrator of the Federal Rural Development Investment Equalization Administration would be ex-officio members.

Appointed members would serve for terms of six years except that in case of the first members appointed, six would be appointed for terms of six years, six would be appointed for terms of four years, and three would be appointed for terms of two years. Appointed members would receive $200 per day for not more than 75 days of meetings each year.

Section 902. *Powers of the Board.* The Board would establish the general policy for all institutions of the Rural Development Credit System.

Section 903. *Indirect Participation by Private Financial Sources.* The Board is authorized on behalf of the Regional Rural Development Credit Banks and the other institutions of the System to issue bonds, debentures and other obligations, buy and sell securities it has issued or guaranteed, invest funds not needed in its financing operations in such property as the Board may determine, and guarantee securities in which it has invested for the purpose of facilitating their sale. The Board would utilize on a reimbursable basis the security selling agency services of the Farm Credit System.

The Secretary of Agriculture would be authorized to guarantee the obligations issued by the Board on behalf of Regional Rural Development Credit Banks. The full faith and credit of the United States is pledged to the payments of all amounts so guaranteed.

Section 904. *Federal Payments to the Board.* With respect to such amounts of loans of the Regional Rural Development Credit Banks as may be specified in appropriation Acts, the Secretary of the Treasury is authorized to make and to contract to make annual payments to the Board in such amounts as are necessary to (1) reimburse the Federal Rural Development Investment Equalization Administration for needed interest supplements and rural capital augmentation, and (2) subscribe to stocks of Regional Rural Development Credit Banks that may be tendered by the Board.

Section 905. *Federal Insurance of Obligations to the Board.* This section authorizes the Secretary of Agriculture to insure any obligation insured or purchased by the Board. Five million dollars is authorized to be appropriated as initial capital for a revolving fund to be used to carry out such insurance. All premiums charged for such insurance would be depsoited in the fund. In carrying out his functions under this title, the Secretary would have the same functions, powers and duties as under the Consolidated Farm and Rural Development Act, and such sums are authorized to be appropriated to the Secretary for the Agricultural Credit Insurance Fund as may be necessary to carry out his responsibilities under this title.

SUBTITLE I—GENERAL PROVISIONS

Section 1001. *Financial and Other Supervision.* The Rural Development Credit System would be subject to the supervision of the Farm Credit Administration with respect to all procedures relating to financial obligations, including audits, and would be subject to the supervision of the Administrator of the Rural Enterprise and Community Development Administration with respect to the appraisal of real and personal property for security purposes.

Section 1002. *Examinations and Reports, Audits.* This section provides for examinations and audits by Farm Credit Administration examiners and General Accounting Office auditors, and reports to Congress by the Farm Credit Administration and the Federal Rural Development Credit Board.

Section 1003. *Conditions of Other Banks and Lending Institutions.* The Comptroller of the Currency is required upon request of the Farm Credit Administration to—

(1) Furnish for confidential use of any institution of the Rural Development Credit System any information he may have relating to the financial condition of national banks through which such institution makes loans; and

(2) Make such further examination as may be agreed of organizations through which such institution makes loans.

Section 1004. *Consent to the Availability of Reports and to Examinations.* This section requires any organization seeking discount privileges or delegated powers from a bank of the Rural Development Credit System to consent to examination by Farm Credit examiners or, in the case of State banks, trust companies and savings associations, to permit State authorities to furnish reports of their examinations upon request of the Farm Credit Administration.

Section 1005. *Reports on Conditions of Institutions Receiving Loans or Deposits or Redelegated Powers.* This section authorizes various agencies to furnish information to the Farm Credit Administration or any institution of the Rural Development Credit System.

Section 1006. *Jurisdiction.* Each institution of the Rural Development Credit System shall for the purposes of jurisdiction be deemed to be a citizen of the State, Commonwealth, or District of Columbia in which its principal office is located.

Section 1007. *State Legislation.* This section authorizes the Federal Rural Development Credit Agency to declare obligations or securities to be ineligible as collateral under this Act where the State law applicable to such obligations provides insufficient protection in the event of default.

Section 1008. *Tax Exemption.* The Federal Rural Development Credit Board, the Regional Rural Development Credit Banks, and the District Rural Development Credit Agencies are to be exempt from Federal, State, and local corporate income taxes and from all other Federal, State, and local taxes, except that—

(1) Their real and tangible personal property shall be subject to Federal, State, and local taxation to the same extent according to its value as other similar property held by other persons;

(2) The income from any obligations purchased by them from any Federal or State governmental or quasi governmental body and from obligations issued by them shall be subject to Federal, State, and local taxation to the same extent as the income or obligations of private corporations are taxed; and

(3) The Regional Rural Development Credit Banks are liable for the franchise tax provided for in section 614 of this Act.

Section 1009. *Nature of Obligations.* All obligations issued by the Federal Rural Development Credit Board or Regional Rural Development Credit Banks shall be lawful investments for all fiduciaries.

Section 1010. *Compensation.* This section amends title 5 of the United States Code to place the Executive Director of the Rural Development Credit Agency and the Administrator of the Rural Development Investment Equalization Administration in Level IV of the Executive Schedule which currently is $38,000 per annum, and to place the Deputy Executive Director of the Rural Development Credit Agency in Level V of the Executive Schedule which currently is $36,000 per annum.

Section 1011. *Separability.* This section provides that if any provision of the Act is held invalid, the remainder of the Act shall not be affected thereby.

Section 1012. *Reservation of Right to Amend or Repeal.* This section reserves the right to alter, amend, or repeal any provision of the Act.

Section 1013. *Appropriations.* This section authorizes the appropriation of—

(a) $200 million annually for not to exceed 10 years for the purchase of capital stock in the Regional Banks by the Federal Rural Development Credit Agency;

(b) $300 million annually to the Federal Rural Development Investment Equalization Administration for interest supplements and capital augmentation payments; and

(c) Such additional sums as may be necessary without fiscal year limitation to carry out the purposes of the Act.

92d CONGRESS
1st Session

S. 1483

IN THE SENATE OF THE UNITED STATES

June 8, 1971

Referred to the Committee on Agriculture and Forestry and ordered to be printed

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AMENDMENTS

Intended to be proposed by Mr. Pearson to S. 1483, a bill to further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and consolidate existing farm credit law to meet current and future rural credit needs, and for other purposes, viz:

On page 2, line 24, insert "the Rural Community Development Bank," immediately after "cooperatives,".

Amdt. No. 153

On page 3, line 13, strike out "4.10" and insert in lieu thereof "5.10".

On page 18, line 5, strike out "4.0" and insert in lieu thereof "5.0".

On page 20, line 24, strike out "4.10" and insert in lieu thereof "5.10".

On page 25, line 19, strike out "4.0" and insert in lieu thereof "5.0".

On page 33, line 8, strike out "4.0" and insert in lieu thereof "5.0".

On page 37, line 7, strike out "4.0" and insert in lieu thereof "5.0".

On page 51, line 22, strike out "4.10" and insert in lieu thereof "5.10".

On page 55, line 8, strike out "5.1 (b) and (c), 5.4, 5.5, and 5.6" and insert in lieu thereof "6.1 (b) and (c), 6.4, 6.5, and 6.6".

On page 57, line 12, strike out "4.0" and insert in lieu thereof "5.0".

On page 63, line 16, strike out "4.0" and insert in lieu thereof "5.0".

On page 65, line 22, strike out "4.0" and insert in lieu thereof "5.0".

On page 69, between lines 7 and 8, insert a new title as follows:

"TITLE IV—RURAL COMMUNITY DEVELOPMENT BANK

"FINDINGS AND PURPOSE

"SEC. 4.0. The Congress finds that there is an urgent need for the development and redevelopment of many rural communities of the Nation, that the development of the economy of such communities is essential to maintenance of a stable and consistent economic level of the Nation, that such development would aid in reducing the necessity of migration to metropolitan areas and in achieving a broader geographical distribution of the Nation's growing population, that such development can be aided by the establishment or expansion of commercial or industrial enterprises, and public and related private services and facilities, that the financing of such undertakings, in addition to financing presently available, is needed for such community development, and thatt the capital needs for investment in rural development are too great in total and too large in individual amounts to be met in full by existing institutions.

"It is the purpose of this title to accelerate rural development in the Nation by—

"(1) assisting in the economic development of rural communities which can provide additional economic opportunities and aid in the reduction of outmigration, by providing financial assistance for the establishment and improvement of commercial and industrial facilities, supporting public and private development facilities in or accessible to such communities, and housing necessarily related to the undertakings financed under this title;

"(2) stimulating private investment in such facilities;

"(3) seeking to bring together investment opportunities, public and private capital, and capable management;

"(4) providing technical and other supportive assistance to aid in such economic development; and

"(5) seeking to achieve these purposes primarily by the application of the financial, management, and technical assistance resources of the private sector.

"DEFINITIONS

"SEC. 4.1. As used in this title—

"(1) The term 'commercial and industrial facility' means a fixed place of business, in or from which a manufacturing, processing, assembling, sales, distribution, storage, service, or construction business is carried on, including but not limited to—

"(A) an office building or place of management,

"(B) a factory, plant, laboratory, service center, or other workshop,

"(C) a store or sales outlet,

"(D) a storage, transportation, or shipping facility, and

"(E) any combination thereof.

"(2) The term 'supporting private and public development facility' means an element of infrastructure, including recreational and cultural facilities, typically developed and owned by a public agency or private utility, or other service or facility made available to the public which is necessary to support economic development activities under this title.

"(3) The term 'housing necessarily related' means housing of all types in or near a community which will provide living quarters for the personnel of any new or expanded industry when the governing body of the political subdivision in which development assisted under this title will be undertaken, certifies that there exists a need for additional housing in or near the development.

"(4) The term 'rural communities' means any community, whether or not incorporated, in the United States and the Commonwealth of Puerto Rico (including such areas in Indian reservations and native communities as are approved by the bank after consultation with the Secretary of the Interior) which is in a county in which at least 15 per centum of the population had an estimated annual per family income below the poverty level as determined by the bank after consultation with the Director of the Office of Economic

Opportunity, but shall not include (i) any area within the boundaries of any standard metropolitan statistical area, as defined from time to time, (ii) any area included in a metropolitan planning district or metropolitan development district, or (iii) any other area including towns and cities in an otherwise rural county which the bank determines, in accordance with criteria developed by the Board, including growth pattern and economic potential, should be developed as a part of a metropolitan complex, or is a city which has available adequate resources and available financial support and other assistance for its development or redevelopment without assistance under this title.

"CREATION OF RURAL COMMUNITY DEVELOPMENT BANK

"SEC. 4.2. There is hereby created a corporation to be known as the 'Rural Community Development Bank' (hereinafter referred to as the 'bank') which shall be an instrumentality of the United States Government. The bank shall be subject to the provisions of this title. The right to repeal, alter, or amend this Act at any time is expressly reserved.

"DIRECTORS AND OFFICERS

"SEC. 4.3. (a) The bank shall have a Board of Directors consisting of thirteen individuals who are citizens of the United States of whom one shall be elected annually by the Board to serve as chairman. Members of the Board shall be selected as follows:

"(1) The President of the United States shall appoint seven members of the Board who shall be officials or employees of government, including Federal, State, and local government. The terms of directors so appointed shall be for four years, except that (A) the terms of such directors first taking office shall expire as designated by the President at the time of appointment, three at the end of two years, and three at the end of four years after such date; and (B) any director so appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term. At the discretion of the President, any individual who ceases to be an official or employee of government during his term as director may, notwithstanding that fact, complete his term.

"(2) The President of the United States shall appoint the remaining six members of the Board from among representatives of the private sector. Of the six persons so appointed, three shall be from among representatives of business and finance, one from among representatives of organized labor, one from among representatives of community development organizations, and one from among representatives of the general public. The terms of directors so appointed shall be for four years, except that (A) the terms of such directors first taking office shall expire as designated by the President at the time of appointment, one-half of the members at the end of two years, and one-half at the end of four years after such date; and (B) any director so appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term and shall be chosen from among representatives of the same category as his predecessor.

"(b) The President, by and with the advice and consent of the Senate, shall appoint a president of the bank. The president of the bank shall be the chief administrative officer of the bank and shall perform all functions and duties of the bank, in accordance with the general policies established by, and subject to the general supervision of, the Board, and shall engage such other officers and employees as the bank deems necessary to carry out its functions. The appointment of the president and not more than two assistant presidents may be made without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and they may be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates. The president of the bank shall be an ex officio member of the Board of Directors and may participate in meetings of the Board, except that he shall

9

have no vote except in case of an equal division. No individual other than a citizen of the United States may be an officer of the bank. No officer or employee of the bank other than members of the Board and Advisory Committee shall receive any salary, other than a pension, from any source other than the bank during the period of his employment by the bank.

"(c) Members of the Board and of the Advisory Committee may receive the sum of $100 for each day or part thereof spent in the performance of their official duties, which compensation, however, shall not be paid for more than seventy-five days (or parts of days) in any calendar year and shall not be paid to any Board member if he is a full-time officer or employee of the United States, or such payment is otherwise prohibited by law. In addition, such members shall be reimbursed for necessary travel, subsistence, and other expenses incurred in the discharge of their official duties without regard to the laws with respect to allowances which may be made on account of travel and subsistence expenses of officers and employed personnel of the United States.

"ADVISORY COMMITTEE

"SEC. 4.4. (a) There shall be an advisory committee of not more than twenty persons, selected by the Board of

Directors on the recommendation of the president of the bank, which shall be broadly representative of industry, commerce, finance, labor, community development and antipoverty organizations, the Congress, and government at all levels. The committee shall meet annually and at such other occasions at the call of the president of the bank, and shall advise the bank on general policy and on such other matters as the bank may direct. Members of the committee shall serve for such terms as the Board of Directors may from time to time determine and they shall be paid their reasonable expenses incurred on behalf of the bank.

"(b) Any official or employee of the United States Government may accept appointment and serve on advisory committees established pursuant to this section, any other provision of law notwithstanding.

"CAPITALIZATION OF BANK

"SEC. 4.5. (a) Subject to the provisions of this section, the bank is authorized to issue from time to time and to have outstanding class A capital stock of an aggregate purchase price not to exceed $1,000,000,000. Shares of such stock shall be nonvoting and without par value.

"(b) The Secretary of the Treasury is authorized to and shall subscribe for and acquire on behalf of the United States, upon request of the Board of Directors, the full amount of the stock of the bank of an aggregate purchase price of $1,000,-

000,000. The subscription of the United States shall be paid as follows:

"(1) Not more than 20 per centum shall be paid at the time the bank is organized, as authorized by appropriation Act, and shall be available as needed by the bank for its operations.

"(2) The remaining 80 per centum shall be paid on call by the bank only when required to carry out the provisions of this title, except that not more than 20 per centum of such amount may be called in any fiscal year, as authorized by appropriation Act.

The Secretary of the Treasury is authorized and directed to pay the subscription of the United States to stock of the bank from time to time when payments are required to be made to the bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction $1,000,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this paragraph of the subscription of the United States to the bank and repayments thereof shall be treated as public-debt transactions of the United States.

"(b) Stock and other securities issued by the bank pursuant to this section and section 4.6(b) shall be exempt securities under section 3 of the Securities Act of 1933 (15 U.S.C. 77c).

"(c) As an addition to the capital and surplus structure of the bank, there shall be issued to each contributor to the guaranty fund hereinafter provided for, a certificate identifying his or its interest therein, such certificates may as determined by the Board be redeemable in class B stock of the bank when the issuance of such class B stock is authorized by the Congress.

"OPERATIONS AND POWERS OF THE BANK

"SEC. 4.6. (a) In order to carry out the purposes of this title, the bank is authorized to—

"(1) make, participate in, or guarantee loans or provide other financing for real or personal property or for working capital to any public agency or private organization or individual for the establishment, expansion, or preservation of any industrial or commercial facility or a supporting public or private development facility which is to be established or is located in a rural community, and housing related thereto;

"(2) make, participate in, or guarantee loans or provide other interim financing for the construction or improvement of such facilities to building contractors, subcontractors, or other persons engaged in such work;

"(3) provide or assist in the provision of insurance to protect any agency, organization, or individual receiving financing for a commercial or industrial facility or a supporting public or private development facility under paragraphs (1) and (2) against damage or casualty loss in connection with such facility;

"(4) provide technical assistance to State and local governments in the preparation and implementation of comprehensive rural community development projects and programs, including the evaluation of priorities and the formulation of specific project proposals. The bank may charge appropriate fees for its services under this subsection;

"(5) undertake research and information gathering, and to facilitate the exchange of advanced concepts and techniques relating to rural community growth and development among State and local governments;

"(6) develop criteria to assure that projects assisted by it are not inconsistent with comprehensive planning for the development of the community in which the projects to be assisted will be located or disruptive of Federal programs which authorize Federal assistance for the development of like or similar categories of projects.

"(7) seek to bring together investment opportunities in such facilities, capital, and capable management;

"(8) carry on such other activities as would further the purposes of this title; and

"(9) provide for the establishment of a guaranty fund to which the bank may require each borrower to contribute such a percentage of the amount of loan, guarantee, participation, or other financial assistance extended by the bank under this title as the Board may from time to time determine.

"(b) To obtain indirect participation by private and other public financial sources the bank is authorized to—

"(1) issue bonds, debentures, and such other certificates of indebtedness as it may determine and may issue such securities on a competitive or negotiated basis at the discretion of the Board of Directors;

"(2) invest funds not needed in its financing operations in such property and obligations as it may determine;

"(3) buy and sell securities it has issued or guaranteed or in which it has invested; and

"(4) guarantee securities in which it has invested for the purpose of facilitating their sale.

"(c) Whenever necessary to meet contractual payments of interest, amortization of principal, or other charges on the bank's own borrowing, or to meet the bank's liabilities with respect to similar payments on loans guaranteed by it, the bank may call an appropriate amount of the unpaid subscription of the United States in accordance with section 4.5 (b) (2). Moreover, if it believes that a default on financing provided by it may be of long duration, the bank may call an additional amount of such unpaid subscriptions for the following purposes—

"(1) to redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it with respect to which the debtor is in default; and

"(2) to repurchase, or otherwise discharge its liability on, all or part of its own outstanding borrowings.

"(d) The bank is authorized to establish a principal office and branch offices in such locations as it may determine. It may establish regional offices and determine the location of, and the areas to be covered by, each regional office. It may make arrangements with public or private organizations at the regional, State, and local levels, including banking organizations and other financing institutions, to act as agents or otherwise to assist the bank in the conduct of its business.

"(e) To carry out the foregoing purposes, the bank shall have such additional powers as are necessary or appropriate in carrying out this title.

"OPERATING PRINCIPLES

"SEC. 4.7. The operations of the bank shall be conducted in accordance with the following principles:

"(1) The bank shall undertake its financing, technical assistance, and other operations on such terms and conditions and for such fees as it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the bank, the benefits to the rural community or to the residents of such communities, and the conditions under which similar financing might be available from private investors.

"(2) The bank shall maintain such liaison or consultation with other departments, agencies, or instrumentalities of the Government as may be necessary to insure that its operations are carired out in a manner which will supplement and not duplicate the operations and functions of any other department, agency, or instrumentality of the Government.

"(3) The bank shall consult with and shall seek to encourage local banking and other financial institutions to participate in its financing and other activities.

"(4) The bank shall, to the extent feasible, give emphasis in its activities to providing financing and other assistance to facilities owned in whole or in part by residents of rural communities or to facilities in which such ownership is made available to such persons.

"(5) The bank shall seek to revolve its funds by selling its loans, guarantees, and other investments to private investors whenever it can appropriately do so on satisfactory terms.

"(6) The bank shall be subject to the Government Corporation Control Act (31 U.S.C. 841 et seq.) in the same manner and to the same extent as if it were included in the definition of 'wholly owned Government corporation' as set forth in section 101 of said Act (31 U.S.C. 846).

"(7) The bank shall pay a return out of net income, after providing for reserves and operating expenses, at the rate of 2 per centum per annum on the amounts of class A stock subscription actually paid into the bank. Such return shall be cumulative and shall be payable annually into miscellaneous receipts of the Treasury.

"(8) The bank shall not engage in political activities nor provide financing for or assist in any manner any project or facility involving political parties or used or to be used for sectarian instruction or as a place for religious worship nor shall the directors, officers, or employees of the bank in any way use their connection with the bank for the purpose of influencing the outcome of any election.

"(9) The bank shall adopt such bylaws as may be necessary for the conduct of its business and the management of its affairs and may adopt such additional rules and regulations as are necessary and appropriate for carrying out the provisions of this title.

"LIMITATIONS ON FINANCING

"SEC. 4.8. (a) The bank shall not provide financing for any business or commercial facility or public development facility, nor shall it plan, initiate, own, or manage such a facility, unless it determines that—

"(1) other public or private financing could not be obtained on reasonable terms and condition;

"(2) adequate arrangements have been made to insure that the proceeds of any loan or other financing are used only for the purpose for which the financing was provided, with due attention to considerations of economy and efficiency;

"(3) the borrower or other recipient of financing has adequate equity or other financial interest in or income from the facility to insure his or its careful and businesslike management of the project;

"(4) the governing body of the city or, as appropriate, the governing body of the county, parish, or other political subdivision in which the facility is located or is to be established, or an agency or other instrumentality of such political subdivision designated by such body, has certified to the bank its approval of (A) the establishment of the facility at the particular location, (B) the proposed standards of construction and design, and (C) provisions for the relocation of any residents or businesses to be displaced;

"(5) the establishment, expansion, or preservation of the facility in the particular location will contribute to the level of economic opportunity for residents of the community and contribute to the general development of the community.

"(b) The bank shall not provide financing for any business or commercial facility which has been relocated from one area to another; except that this requirement may be waived by the Board of Directors if it determines (1) that the establishment of such facility in the new location will not result in an increase of unemployment in the area of original location or in any other area where the enterprise conducts business operations, or (2) that such facility is not being established in the new location with any intention of closing down the operations of the enterprise in the area of original location or in any other area where the enterprise conducts its operations.

"EXEMPTION FROM TAXES

"SEC. 4.9. For the purpose of the Internal Revenue Code of 1954, the bank shall be considered to be an instrumentality of the United States and exempt from Federal income taxes. Except as specifically provided in this title, the bank, including its capital and reserves or surplus and income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by the bank under the provisions of this title. The security instruments executed to the bank and the bonds, obligations, debentures, issued under the provisions of this title shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

"ANNUAL REPORT

"SEC. 4.10. Not later than one hundred and twenty days after the close of each fiscal year the bank shall prepare and submit to the President and to the Congress a full report of its activities during such year.

"AMENDMENTS RELATING TO FINANCIAL INSTITUTIONS

"SEC. 4.11. (a) The sixth sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting before the comma after the words 'or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association' the following: ', or debentures or other obligations of the Rural Community Development Bank'.

"(b) Section 5200 of the Revised Statutes, as amended

(12 U.S.C. 84), is amended by adding at the end thereof the following:

"'(14) Debentures or other obligations of the Rural Community Development Bank shall not be subject to any limitation based upon such capital and surplus.'

"(c) The first paragraph of section 5 (c) of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (c)), is amended by inserting before the semicolon in the second proviso following 'stock of the Federal National Mortgage Association' the following: '; or in debentures or other obligations of the Rural Community Development Bank'."

On page 69, line 8, strike out "TITLE IV" and insert in lieu thereof "TITLE V".

Renumber sections 4.0 through 4.12 as sections 5.0 through 5.12, respectively.

On page 71, line 7, strike out "4.0" and insert in lieu thereof "5.0".

On page 71, line 15, strike out "4.0" and insert in lieu thereof "5.0".

On page 72, line 20, strike out "4.3" and insert in lieu thereof "5.3".

On page 75, line 14, strike out "and III" and insert in lieu thereof "III, and IV".

On page 79, line 1, strike out "TITLE V" and insert in lieu thereof "TITLE VI".

Renumber sections 5.0 through 5.29 as sections 6.0 through 6.29, respectively.

On page 79, line 12, strike out "5.18" and insert in lieu thereof "6.18".

On page 92, line 19, strike out "5.2" and insert in lieu thereof "6.2".

On page 98, line 16, strike out "5.15" and insert in lieu thereof "6.15".

On page 99, line 13, strike out "5.16" and insert in lieu thereof "6.16".

BRIEF SUMMARY COMPARISON OF MAJOR PROVISIONS OF S. 2223 AND AMENDMENTS INTENDED TO BE PROPOSED TO S. 1483

Provision	S. 2223	Amendments to S. 1483
Expands scope and authorization of U.S. Department of Agriculture Credit Programs.	Yes.	No.
Reorganizes U.S. Department of Agriculture.	Yes.	No.
Establishes rural development credit bank.	10 regional banks.	1 national bank.
Borrowers become stockholders and owners.	Yes.	No.
Local banks and units of government may become stockholder-owners.	Yes.	No.
Sell bonds and debentures in central money markets to gather funds.	Yes.	Yes.
Provides financial assistance to private and public borrowers for broad range of rural (community) development purposes and projects.	Yes.	Yes.
Provides rural development incentive payments.	Yes.	No.
Provides tax exempt bonds and debentures.	No.	Yes.
Findings and policy	National balanced growth policy Title IX (AA of '71).	National balanced growth policy Title IX.
Areas covered	Open country and cities, towns and villages not larger than 35,000 population.	Areas of heavy (more than 15 percent) prevalence of families in poverty if area is outside of SMSA and outside of metropolitan planning region.
U.S. Government insures obligations to and of the bank(s).	Yes.	Yes.
Interest rate	Determined by Federal Board.	Determined by National Bank Board.
Project require clearance by areawide planning and development district.	Yes.	Yes.
Areawide planning and development agency may qualify to make loans, obtain loans and become stockholder of bank(s).	Receive loans, make loans, become stockholder, serve as local agent of banks.	Is eligible to obtain loans.
Headquarters located in rural area	Required.	Not required.
Board members must be legal residents of rural areas.	Yes.	No.
Local banks may obtain financial assistance.	Yes.	Yes.
Provides technical assistance	Yes.	Yes.
Borrowers required to buy stock	Yes.	No.
Borrowers contribute to reserve fund	No.	Yes, which if Congress enacts later legislation may be converted into stock.
Antipiracy provision	Yes.	Yes.
Applicant must demonstrate inability to get credit elsewhere.	Yes.	Yes.
Business must be net addition to national capacity.	Yes.	No.
Established stable applicants given preference.	Yes.	Not required.
National Board of Directors	19 members: Governors of FCA. 2 Officils of RDCredit System. Secretary of Agriculture's Representative. 5 appointed by President of U.S. 5 appointed by President of U.S. from persons recommended by President Pro Tempore. 5 appointed by President of U.S. from persons recommended by Speaker of House. The latter 15 require Senate confirmation.	13 members: 7 appointed by President of U.S. from among officials and employees of Federal government. 7 appointed by President of U.S. from the private sector.
U.S. stock subscription	$2,000,000,000.	$1,000,000,000.
Ratio of indebtedness to capital	Maximum—20-1.	No limitation.
Franchise of privilege tax by bank(s)	15 percent of earnings, or going rate of interest multiplied by U.S. capital, whichever is less.	2 percent of stock held by the United States.
Supervisory agency	Federal Rural Development Credit Agency and Farm Credit Administration, for financial procedures.	None.
Special provisions for combination with Federal project grants.	Yes.	No.
Private banks and local units of government may become member institutions of Rural Development Credit System.	Yes.	No.
Financial agencies of areawide planning and development districts may become owners of banks.	Yes.	No.

(NOTE: For further explanation of S. 2223 and amendment No. 153, see committee print, Senate Committee on Agriculture and Forestry, dated July 26, 1971.)

Senator HUMPHREY. Now, this is the first of our hearings. We will have hopefully, various witnesses from the executive branch. But today we are hearing first from some of our colleagues in the Senate.

Senator Talmadge.

STATEMENT OF HON. HERMAN E. TALMADGE, A U.S. SENATOR FROM THE STATE OF GEORGIA

Senator TALMADGE. Thank you, Mr. Chairman.

I compliment you on your statement. I shall be very brief. I don't want to keep Senator Sparkman waiting and I must leave the subcommittee to go to another appointment and the Finance Committee in a moment.

I am delighted that the Rural Development Subcommittee is acting so quickly on S. 2223, the bill introduced by Senator Humphrey, myself, and a majority of the other members of the Committee on Agriculture and Forestry on July 7. I want to compliment Senator Humphrey, the chairman of the Rural Development Subcommittee, on beginning hearings so promptly. I know that the subcommittee will act expeditiously to perfect a bill and I can assure you that this legislation will receive the earliest possible consideration by the full Committee on Agriculture when it is reported by the Rural Development Subcommittee.

In one respect, the legislation that we are considering today is almost like closing the barn door after the horse has run off. Twenty million Americans have left their farms and rural communities for what were believed to be better opportunities in the big cities.

That migration is comparable to the movement of 22 million immigrants to our shores between 1890 and 1930.

But the need still exists. Forty percent of our people live in places of under 35,000 population, even though only 5 percent of the American people live on farms.

Although the legislation we are considering today is by no means a panacea, I believe it is an important beginning toward returning investment capital and opportunity to the countryside.

The balance-of-payments problem between rural and urban America is far greater than the one our Nation faces with foreign countries.

Rural people are spending an average of about $500 per child annually to educate their children only to see them go off to metropolitan areas to find jobs.

Our farmers are our biggest and most constant borrowers, and the millions they pay in interest each year leaves rural America for the major money markets.

This legislation is designed to balance the scales—to promote the balance between rural and urban America which the Congress said it wanted last year when it adopted my title IX amendment to the farm bill.

The Veterans' Administration says that 108 of the 159 counties in my State are credit-shortage areas. That means that they are rural and considered a poor investment by lending agencies, so the veterans there are unable to get home loans.

I am pleased to say that our Veterans Affairs Committee is working on that problem. But this is another example of how the people who live in the countryside have become second-class citizens.

The capital needs of rural America are indeed staggering. Inflation is increasing these staggering needs dramatically. In December 1969 the Farmers Home Administration completed a survey of the water and sewer needs of all communities with populations of 5,500 or less. This survey revealed that a total of $11.283 billion would be required to provide adequate water and sewer systems in these communities.

This 1969 survey is the most recent data that is available, but I asked the Farmers Home Administration to calculate the impact of inflation on the survey. Of course, I am sure a small amount of these water and sewer needs have been met since 1969, but at the same time the decay of existing systems has made the need greater. The simple impact of inflation in the construction industry has increased the 1969 water and sewer need of $11.283 billion to a current figure of $13.303 billion, an increase of over $2 billion.

Mr. Chairman, I would like to insert in the hearing record at this point a copy of my correspondence with the Farmers Home Administration in regard to the impact of inflation on water and sewer needs.

Senator HUMPHREY. Without objection.

(The documents referred to follow:)

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Washington, D.C., July 16, 1971.

Hon. HERMAN E. TALMADGE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR TALMADGE: In response to your request we are enclosing a summary of the figures which indicate the percent increase in costs of water and sewer facilities during the last two years as shown in the June issue of the "Engineering News-Record."

We are also enclosing copies of the pages "100, 101, and 102" which we used in our summary.

We are glad to provide this material for you.

Sincerely,

JOSEPH HASPRAY,
Acting Administrator.

SUMMARY OF INCREASES IN COST OF WATER AND SEWER FACILITIES

WATER SYSTEMS

Up 8 to 11.5 percent (Use 8 percent both years).
(Ref. Whitman, Requardt & Assoc., Baltimore.)

SEWERLINES

4/69 to 4/70, +6.4 percent.
4/70 to 4/71, +10.5 percent.
(Ref. EPA.)

SEWER TREATMENT

4/69 to 4/70, +6.5 percent.
4/70 to 4/71, +12.2 percent.
(Ref. EPA.)
Need per 1969 FHA Survey $11,238 billion.
Year 1 average increase 7 percent=Total $12.072 billion.
Year 2 average increase 10.2 percent=Total $13.303 billion.

WATER PROJECT CONSTRUCTION COSTS

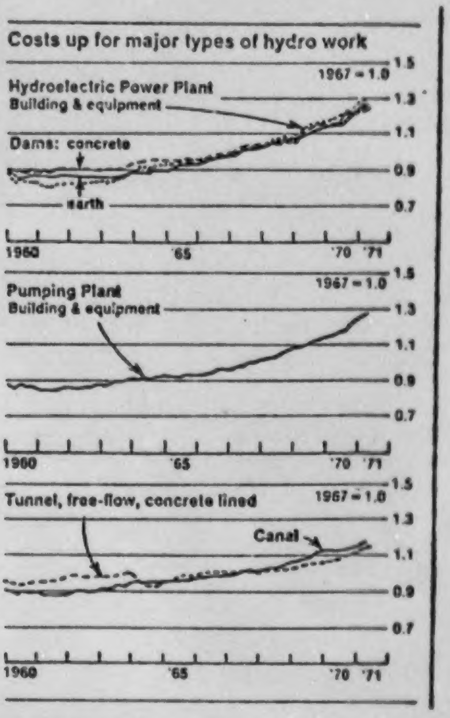
Rampant cost inflation of materials and labor bit deeply into the water resources construction dollar during the 12 months ending April, 1971.

Treatment plant lettings are booming this year, with the first four months shooting 40% above last year, *ENR* figures show. But treatment plant construction costs climbed 12.2% in that period to take a big chunk of the added dollar. In the first few months of 1971, costs rose 3.2%, according to the Environmental Protection Agency's Water Quality Office's 20-cities indexes, an unusually sharp rise for that time of year, indicating that 1971 may bring even steeper cost inflation than 1970.

The sewer line construction dollar fared not much better as costs rose 10.5% during the 12-month period.

Kansas City leads all other cities' indexes by a wide margin in sewerage cost inflation. Treatment plant construction costs jumped 30.3% and sewer lines 28.3%. Baltimore was also hit hard as sewer line costs climbed 21.1% and treatment plants neared a 20% increase for the 12-month period.

April cost indexes climbed at least 10% for treatment plants in 13 cities and for sewer lines in eight cities. Bucking the high-rising sewer line costs were New Orleans, Seattle and Birmingham. Yet no city saw its treatment plant costs jump less than 6%.



Irrigation and hydro cost indexes for the West*

U.S. Bureau of Reclamation, Denver, Colo. Base: Base: 1967 = 1.0

	April							% chg.	% chg.
	1960	1965	1968	1969	1970	Jan. 1971	Apr. 1971	1/71 4/71	4/70 4/71
COMPOSITE INDEX	0.36	0.93	1.04	1.09	1.16	1.24	1.26	+1.6	+8.6
DAMS: Earth	0.87	0.91	1.04	1.08	1.15	1.25	1.26	+0.8	+9.6
Structures	0.91	0.92	1.04	1.06	1.11	1.18	1.19	+0.8	+7.2
Spillway	0.36	0.92	1.06	1.11	1.20	1.30	1.31	+0.8	+9.2
Outlet works	0.33	0.91	1.05	1.11	1.23	1.35	1.37	+1.5	+11.4
Rock	0.89	0.94	1.05	1.10	1.18	1.25	1.26	+0.8	+6.8
Diversion	0.88	0.95	1.03	1.08	1.15	1.23	1.25	+1.6	+8.7
PUMPING PLANTS									
Building & equipment	0.36	0.93	1.03	1.09	1.16	1.24	1.26	+1.6	+8.6
Structure, rein conc & improv	0.90	0.96	1.03	1.06	1.11	1.17	1.19	+1.7	+7.2
Equipment	0.84	0.89	1.04	1.12	1.23	1.34	1.37	+2.2	+11.4
pumps & prime equip	0.37	0.89	1.05	1.12	1.23	1.34	1.36	+1.5	+10.6
accessory elec & misc equip.	0.81	0.96	1.04	1.12	1.23	1.36	1.38	+1.5	+12.2
STEEL PENSTOCKS, DISCHARGE PIPES	0.87	0.93	1.04	1.09	1.17	1.27	1.30	+2.3	+11.1
CANALS	0.86	0.95	1.03	1.07	1.13	1.20	1.22	+1.7	+8.0
Earthwork	0.87	0.93	1.04	1.03	1.15	1.25	1.26	+0.8	+9.6
Structures	0.86	0.97	1.03	1.06	1.11	1.18	1.20	+1.7	+8.1
CONDUITS (tunnels, conc-lined)	0.93	0.95	1.02	1.05	1.09	1.16	1.18	+1.7	+8.3
LATERALS & DRAINS	0.88	0.97	1.03	1.06	1.11	1.18	1.19	+0.8	+7.2
Earthwork	0.88	0.95	1.05	1.09	1.17	1.23	1.24	+0.8	+6.0
Structures	0.89	0.97	1.02	1.05	1.09	1.15	1.16	+0.9	+6.4
POWER PLANTS, HYDRO									
Building & equip	0.86	0.92	1.05	1.11	1.20	1.29	1.30	+0.8	+8.3
Structure, rein, conc & improv	0.89	0.97	1.03	1.07	1.12	1.18	1.19	+0.8	+6.3
Equipment	0.38	0.91	1.06	1.14	1.25	1.35	1.37	+1.5	+9.6
turbines & generators	0.39	0.90	1.07	1.16	1.27	1.38	1.39	+0.7	+9.4
accessory elec & misc equip	0.35	0.89	1.04	1.11	1.20	1.31	1.33	+1.5	+10.8
PIPELINE, conc	0.96	0.96	1.03	1.05	1.10	1.15	1.16	+0.9	+5.5
SWITCHYARDS & SUBSTATIONS	0.37	0.89	1.03	1.09	1.16	1.25	1.27	+1.6	+9.5
TRANSMISSION LINES									
Wood-poles, 115 kv	0.89	0.94	1.04	1.15	1.24	1.29	1.31	+1.6	+5.6
poles & fixtures	0.84	0.92	1.06	1.25	1.35	1.39	1.40	+0.7	+3.7
conductors, devices	0.94	0.94	1.03	1.08	1.16	1.23	1.24	+0.8	+6.9
Steel-tower, 230 kv	0.86	0.90	1.02	1.08	1.15	1.22	1.26	+3.4	+9.5
GEN. PROPERTY—BUILDINGS	0.82	0.91	1.04	1.12	1.21	1.30	1.31	+0.8	+8.3
ROADS, primary	0.91	0.94	1.03	1.08	1.15	1.21	1.23	+1.7	+7.0
Secondary (unsurfaced)	0.33	0.91	1.04	1.09	1.16	1.22	1.24	+1.6	+6.7
BRIDGES, steel	0.83	0.95	1.03	1.08	1.15	1.23	1.25	+1.6	+8.7

*Project cost to federal gov't of BuRec projects in 18 western states including Alaska

Sewerage construction cost indexes in 20 cities

Water Quality Office, Environmental Protection Agency. Base: August 1957-'59 = 100

Treatment plant

	August 1932	August 1955	August 1960	April 1965	April 1966	April 1967	April 1968	April 1969	April 1970	April 1971	% chge 4/69-4/70	% chge 4/70-4/71
. S. AVER..	30	87	105	111	115	118	122	130	138.5	155.4		
tlanta	31	81	97	103	104	110	111	118	129.3	140.8	+9.6	+8.9
altimore	33	85	103	104	107	111	116	120	124.7	149.3	+3.9	+19.7
rmingham ..	27	80	98	100	103	104	107	113	116.0	127.5	+2.7	+9.9
oston	31	89	107	113	116	118	123	131	142.9	159.1	+9.1	+11.3
icago	33	90	108	114	119	121	125	132	143.8	158.2	+8.9	+10.0
incinnati	31	87	105	111	114	116	119	131	140.9	158.3	+7.6	+12.3
leveland	31	94	109	113	118	120	128	140	146.9	160.5	+4.9	+9.3
allas	30	80	97	100	104	105	106	117	124.1	134.3	+6.1	+8.2
enver	31	82	99	105	107	110	112	120	128.7	142.5	+7.3	+10.7
etroit	29	92	110	117	122	125	130	140	152.1	167.0	+8.6	+9.8
ansas City ..	30	86	102	106	109	111	113	121	128.1	166.9	+5.9	+30.3
os Angeles ..	27	87	108	115	119	126	130	136	137.9	163.7	+1.4	+18.7
Minneapolis ..	28	89	109	115	118	121	125	134	141.4	159.1	+5.5	+12.5
New Orleans ..	27	80	96	101	106	109	110	120	126.9	142.8	+5.8	+12.5
New York	36	93	116	127	134	135	141	149	160.9	179.2	+8.0	+11.4
Philadelphia ..	28	91	105	111	114	117	120	130	137.0	154.8	+5.4	+13.0
Pittsburgh	30	89	108	115	118	121	124	133	149.2	160.8	+12.2	+7.8
St. Louis	33	94	106	114	119	122	126	132	141.4	158.4	+7.1	+12.0
San Francisco .	34	88	108	120	126	129	134	142	150.4	167.7	+5.9	+11.5
eattle	27	88	109	118	124	129	131	141	147.2	157.4	+4.4	+6.9

Sewer line

	August 1932	August 1955	August 1960	April 1965	April 1966	April 1967	April 1968	April 1969	April 1970	April 1971	% chge 4/69-4/70	% chge 4/70-4/71
U.S. AVER ..	31	87	106	116	115	123	127	137	143.7	161.0		
Atlanta	28	80	92	102	101	107	110	121	132.1	138.4	+9.2	+4.8
Baltimore	31	82	94	115	116	121	124	127	128.1	155.1	+0.9	+21.1
Birmingham ..	26	73	90	94	97	98	101	118	120.0	125.8	+1.7	+4.5
Boston	36	93	109	116	119	123	129	137	150.2	163.0	+9.6	+8.5
Chicago	34	92	110	113	116	119	123	132	146.8	155.7	+11.2	+6.1
Cincinnati	32	86	98	110	112	115	122	146	155.5	171.6	+6.5	+10.4
Cleveland	31	93	115	115	119	120	128	149	157.8	168.2	+5.9	+6.6
Dallas	30	74	90	95	99	101	102	112	119.1	140.3	+6.3	+17.8
Denver	32	80	97	110	111	116	119	122	127.2	138.6	+4.3	+9.0
Detroit	30	97	117	124	127	131	137	141	157.0	175.8	+11.3	+12.0
as City ..	33	86	105	110	109	116	119	128	135.3	173.6	+5.7	+28.3
Angeles ..	31	90	111	120	119	132	138	141	142.8	165.6	+1.3	+16.0
neapolis ..	31	94	118	122	118	130	138	142	150.3	171.5	+5.8	+14.1
New Orleans ..	28	78	93	101	106	114	115	130	137.2	142.3	+5.5	+3.7
New York	36	99	135	148	134	154	161	167	170.3	186.4	+2.0	+9.5
Philadelphia ..	24	94	112	122	114	128	131	132	153.0	160.3	+15.9	+4.8
Pittsburgh	24	85	104	126	118	132	134	143	154.5	166.2	+8.0	+7.5
St. Louis	34	87	104	115	119	124	128	137	147.1	172.2	+7.4	+17.1
San Francisco .	35	94	112	128	126	139	145	152	168.3	181.1	+10.7	+7.6
Seattle	30	79	117	131	124	140	145	155	162.3	169.3	+4.7	+4.3

CIR

WATER PLANT COSTS RISE

Water utility plant construction costs climbed to new highs early this year, according to the Handy-Whitman semi-annual indexes.

The most dismaying increases were in treatment plant costs, which shot up 8% to 11.5%, depending on the region, in the 12 months ending January.

Pumping plant costs shot up, with structures climbing faster than pumping equipment in every region.

The North Atlantic region bore the brunt of cost inflation as pumping and treatment plant construction cost increases topped 11% and reservoirs jumped 8.7%.

While the South still has the highest waterworks construction cost indexes of any region, the South Atlantic's cost rise slowed markedly. The slowest cost increases of any region were in the south central states. Reservoir costs in the South Atlantic rose 5.6% in January, half the previous year's climb.

The Pacific and Plateau regions had a slower rate of increase than northeastern and north central states. But Pacific states suffered the worst inflation in several years.

Senator TALMADGE. When the Subcommittee on Rural Development held hearings in Georgia, we heard from a small-town mayor who is trying desperately to obtain the capital to provide adequate service for his people. Mayor Perry Lee DeLoach of Claxton has had no luck in trying to get assistance from the Farmers Home Administration, even though he desperately needs assistance to provide water and sewer services to the people of Claxton, people who currently have no water and sewer services at all.

Perhaps the reason that he can't get assistance is that the Federal Government is spending a mere pittance on the water and sewer needs of rural America. Congress appropriated for the water and sewer program of the Farmers Home Administration $100 million for fiscal year 1971. However, the administration has refused to spend even this small amount. The President withheld $56 million of this total.

Hopefully, the legislation that we are considering here today will provide a reliable source of capital for the Claxtons of the Nation, a place where Perry Lee DeLoach and the other mayors of the country can go when they are turned down by a Federal agency.

I am a great admirer of personal initiative—of people who take on their own problems and solve them without resorting to the public dole or some other outside assistance. But sometimes, personal grit and hard work are not enough, especially when the tools are not available to get the job done.

The sponsors of both pieces of legislation presented here today want to provide the financial tools so that rural people can make their own decisions and do what is needed to insure the economic future of their communities.

Neither of these bills is a giveaway. They rely entirely on local people. I believe they are consistent with the rural development aims of President Nixon, and those of many experts in the field, who were contacted during the drafting of this legislation.

Obviously, I am enthusiastic about the possibilities of the Consolidated Farm and Rural Development Act, and I hope that the Congress, after perfecting the language, can move ahead and adopt it during this session of Congress.

We have already waited too long. We must make some giant strides if we are to grow with some sensible balance in the years to come.

Thank you, Mr. Chairman.

Senator HUMPHREY. I want to thank the chairman of the committee for a very powerful and wonderful statement.

The Senator from Nebraska, Mr. Curtis.

STATEMENT OF HON. CARL T. CURTIS, A U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator CURTIS. Thank you, Mr. Chairman. I shall be very brief.

I want to reiterate my interest in rural development. I believe that the responsibility of this committee is to serve the rural areas throughout the United States, and in so doing, they will serve the metropolitan areas of our Nation as a whole.

Not all of the problems are the same. There are many places in America where the rural schools are far superior to our city schools. In most of rural America they have places to live that are far superior to the places working men and women live elsewhere.

There is not every place in the United States where the paramount need is for credit, although that is one, and Congress should and must give some attention.

As I see it, the basic thing that needs to be attended to is job opportunities in rural America. If we are to lend money for all the supporting facilities, and no job opportunities come to a community, we may leave them with more headaches than they had.

On the other hand, if we can take such actions as will assist in bringing job opportunities in the private sector to our small towns and cities, and reverse the flow of people it will be a good thing.

I think there are many facets to it. Credit may be a need in some instances. There is a big job to do in educating the industrial people of the United States as to the opportunities in rural America. The local communities need to take the initiative.

There is one program that has brought countless industries into the North and South and East and West, and I refer to the use of tax-free industrial bonds. It has local control; it has local management; and it has brought many job opportunities to many places.

A few years ago that was stopped by edict of the Treasury. We have had two or three legislative attempts to revive it, but it is now limited to $5 million. It should be raised to $10 million.

This provides credit on the local level without borrowing from the Federal Government and it also assures local leadership. And it is seldom used until there is a business entity that is ready to move in and give our people jobs.

I view rural America today not as a decaying, backward place that needs to be rescued by our Nation; I view it as a land of opportunity, the best place for people to live. It is the place where there is the highest education, the best recreational opportunities, the best churches, the best neighbors and the best of everything else. And our aim, among other things, is to take such action as will give an economic nudge for industry to move there and for local people to get into the act, and for our citizens generally to recognize the wonderful things that we have to offer as a place to live for American people.

I believe I have repeated this many, many times, but I want to stress again that all of these efforts should be in addition to, and not as a substitute for, every effort we can make to increase the income of American farmers.

Senator HUMPHREY. Senator Bellmon, do you have any comment?

Senator BELLMON. No.

Senator HUMPHREY. Senator Pearson has asked that his testimony be included in the record, and it will be. He is unable to be with us at this particular moment, but we will make it available for the record.

(The statement referred to follows:)

STATEMENT OF HON. JAMES B. PEARSON, A U.S. SENATOR FROM THE STATE OF KANSAS

Senator PEARSON. Mr. Chairman, I am pleased to have the opportunity to testify on behalf of these two bills. I am, of course, partial to, and will devote most of my testimony to, my proposed rural community development bank bill which has been offered as an amendment (No. 153) to S. 1483. However, I want to say that I am very impressed with the Consolidated Farm and Rural Development Act which you and other distinguished members of the Agriculture Committee have introduced. And, as you know, I am also a cosponsor of that proposal.

The important thing, of course, is that we move ahead with the adoption of some type of legislation which will create the instruments capable of providing the credit and technical assistance needed to further the cause of rural community development and balanced national growth.

Mr. Chairman, because this is the first time I have appeared before this subcommittee, I want to take the opportunity to say how very important and useful I believe this subcommittee has already been and will surely continue to be in the future. The parent committee is to be commended for establishing this subcommittee. And, Mr. Chairman, all of us who are familiar with your energy and your vision and particularly your enthusiasm for rural America know that you will bring to the chairmanship a distinguished and effective leadership.

Certainly there is a great need for a focal point here in the U.S. Senate to deal with the matter of rural development and balanced national growth which I believe is truly one of the great concerns of this Nation today.

Mr. Chairman, several years ago I became convinced the we were on a dangerous course in this country. We were so caught up in the apparent inevitability and the assumed desirability of massive, unguided urbanization, that we were unable to recognize the great population and economic imbalance that was developing in this country and to fully perceive the very real hazards inherent to this growing imbalance. To be sure, the economic and social forces which have produced the great rural to urban migration are indeed symbols of progress. But the festering slums, the polluted air, and the stultifying suburbs on the one hand, and the deserted farms and stagnating rural towns on the other hand are damning testimony of our failure to diffuse this progress throughout the entire population.

When I introduced the Rural Job Development Act in 1967, I pointed out that:

> In our efforts to deal with the crisis of the cities we must recognize that the challenge is not only that of making the cities more efficient for more and more people, as is so generally assumed, but how to keep more and more people from crowding into them. For we have come to recognize that many of the economic, social, and environmental ills which plague the cities can be traced to the overcrowding of people and the excessive concentration of industry.

I am today more than ever convinced of the validity of this point of view. And indeed today it is a rather widely held view.

Seventy percent of the counties in Kansas lost population between 1960 and 1970. The same trend was evident in the majority of rural counties across the Nation. On the other hand, the metropolitan agglomerations continued to grow at a rapid pace. For example, the 1970 census count shows that 36.2 million people, almost one-fifth of the U.S. residents, live in a 450-mile strip stretching from Boston to Washington, D.C.

During the next three decades, U.S. population will increase by 75 to 100 million persons. If present trends continue, more than three-fourths of this increase will occur in metropolitan areas and almost 70 percent of our population will be located in but four giant metropolitan strips.

This tilt toward the megalopolis and away from the small community generates economic inefficiencies at both ends of the population scale. This imbalance also carries with it a number of social liabilities. Thus it has become increasingly apparent that our Nation's goals would be better served by efforts to alter these trends in order to achieve a more reasonable population balance.

The depopulation of our rural communities and the overcrowding of our cities reduce the overall quality of American life.

Many people, of course, move to the large metropolitan centers because they are attracted to the environment of the big city. But many are forced to migrate because of a lack of opportunities in the countryside and smaller cities. Public opinion polls have consistently shown that a substantial majority of our people would prefer to live in smaller communities.

Those who prefer to live in the large cities must continue to have the opportunity to do so. And certainly we must make a major effort to improve the quality of life in the metropolitan areas, to make them more attractive. But, on the other hand, we must do a great deal to improve economic and social conditions in small communities so that those who prefer to live there will have a meaningful opportunity to do so.

The economic and social forces which are generating this rural/urban imbalance are powerful but not uncontrollable, as a number of experts have long argued. We can alter these trends. We can expand opportunities in rural America if we set our minds to it and if we are willing to commit the necessary resources.

It is imperative that we move forward with the development of a national policy which will help bring about a more efficient and commonsense geographical distribution of our ever-growing population and economic wealth. To continue the present course of depopulating the countryside and the small cities on the one hand while continuing to swell the population in the already overcrowded crisis-ridden cities can no longer be tolerated.

Translating the objectives of rural development and balanced national growth into concrete, meaningful results will not be easily or quickly accomplished. We do not fully understand all the whys and wherefores of economic growth and how best to go about influencing and guiding growth patterns. However, certain needs are apparent.

I will not at this time discuss the full range of needed rural development legislation. However, I do want to take this opportunity to briefly call attention to my Rural Job Development Act which would seek to encourage new job-creating industries to locate in rural areas by making available to businessmen a series of tax incentives such as credits for buildings and machinery and accelerated depreciation allowances. If enacted, this bill would do a great deal, I believe, to stimulate the growth of new business in rural areas.

In the area of transportation, I would call attention to my Limited Air Carrier Act which is designed to strengthen air service to our smaller communities. This is an essential piece of legislation, it seems to me, particularly in view of the reductions of rail passenger service and because many of the second level air carriers are beginning to cut back on their services to smaller communities. In the area of highways I was pleased last year that the Congress adopted a major part of my proposed Rural Development Highway Act as a provision within the Federal Aid Highway Act of 1970. Legislation along the lines of my Rural Health Services Act would be useful.

The establishment of a National Rural Development Center as provided in S. 1507 would be extremely useful in the years ahead in providing the research necessary to increase our knowledge of economic growth and population distributions. This bill, as you know, is before your committee.

But certainly, Mr. Chairman, one of the most pressing needs is additional sources of credit. The type and quantity of credit needed to finance significant community rural development simply is not now available. President Nixon's Task Force on rural development recognized this important need and recommended the establishment of a new credit institution to provide rural areas with greater access to private capital. The Task Force recommended that a special independent rural development bank be created within the Farm Credit Administration System. Amendment No. 153 which we are considering here today is aimed at implementing this principal recommendation of the President's Task Force. In the remaining portion of my testimony I want to describe the operation of the proposed Rural Community Development Bank.

The Rural Community Development Bank would offer credit and also technical assistance to both individuals and public bodies for the development of projects which would serve to strengthen and expand the economic base of rural communities.

The bank would be a self-financing corporation. The bill provides for a capital stock subscription of $1 billion to be provided by the Federal Government. The initial Government subscription would be only 20 percent of this amount—or $200 million. As the business at the bank developed, it could expand its capital stock by yearly increments of no more than $200 million. This seed money, paid in by the Federal Government, would be financed through the sale of U.S. Treasury obligations in the private market. Therefore, this $1 billion capitalization by the Federal Government would not actually result in a direct appropriation of tax revenues from the Treasury.

With this capital stock, the bank could then sell bonds and debentures in the private market to raise the funds which it could use to make loans. It would charge interest rates on its loans sufficient to cover all operating costs. Therefore, the bank would be completely self-financing.

The bank would be governed by a 13-member board, appointed by the President. Seven members of the board would be Government officials, including Federal, State, and local government. The remaining six members would be appointed from the private sector, including representatives from finance, industry, labor, and the general public.

The bill would also establish a 20-member advisory committee which would be broadly representative of industry, finance, commerce, community development organizations, and appropriate state and local and Federal Government officials.

Provisions to more precisely identify the status of the boards within the Farm Credit Administration structure need to be drawn. I will suggest additional language at a later date.

The Rural Community Development Bank would be authorized to make loans to job-creating enterprises which would serve to expand and improve the community's economic base.

The bank would also be authorized to make loans to public and quasi-public bodies for the development and improvement of industrial sites and for the expansion and improvement of those public facilities and services necessary to support a community's overall development effort.

Under the provisions of this bill, the bank could make housing loans if it were determined that the housing was an integral and essential part of the community's development program.

Loans for recreational and cultural facilities would also be authorized. But, as in all bank-backed activities, it would have to be determined that the project would contribute to the overall improvement of the community.

No project would qualify for assistance from the bank if it were found to be inconsistent with State and local planning objectives or existing Federal community development programs.

Also, the bank will not finance enterprises relocating from one area to another if this results in an increase in unemployment in the area of original location.

The bank would seek to encourage local banking and other financial institutions to participate in the financing and other activities, and would, to the extent feasible, give emphasis in its activities to providing financing and other assistance to facilities owned in whole or in part by residents of rural communities or to facilities in which such ownership is made available to such persons.

The bank would be exempt from taxes on income by Federal, State, and local governments.

As drawn the bill provides that borrowers be issued participation certificates which could later be converted to ownership stock by an act of Congress. I believe this provision should now be changed to provide for ownership with an additional act of Congress.

Mr. Chairman, a very important feature of the bill is the provision which authorizes the bank to provide technical advisory assistance to both private individuals and public bodies. Indeed, the offering of planning assistance to small communities might eventually become as important as the bank's credit services.

Small communities lack the expertise for conceiving, planning, and carrying out an effective developmental program. An institution such as the Rural Community Development Bank would be able to provide advisory assistance to these small communities and should help fill a great void that now exists. The bank would be authorized to charge appropriate fees for this technical assistance.

The Rural Community Development Bank would be authorized to make loans and offer assistance to communities in counties outside the standard metropolitan statistical areas and where at least 15 percent of the families in that county had poverty level incomes.

The board would also be authorized to exclude those areas which although not at the moment a part of a standard metropolitan statistical area would likely qualify for such a classification in the foreseeable future. In other words, the bank would not participate in community development projects which the board determined would likely lead to further metropolitan sprawl. The general objectives of this legislation would be violated if the activities of the bank were to contribute to "filling up the space", so to speak, between existing metropolitan complexes.

The bank would be required to maintain effective liaison with other Government agencies to assure that it does not duplicate or compete with other programs.

The creation of the Rural Community Development Bank would open up a major new source of capital to help finance the economic development of our rural communities. The bank would also become an extremely valuable source of expertise in community development. This would be of particular value to private entrepreneurs and small communties. Moreover, the experience of and knowledge gained from the bank's activities would eventually make a valuable contribution to national planning efforts for rural development and population growth policies.

Mr. Chairman, the proposed Rural Community Development Bank Act and the proposed Consolidated Farm and Rural Development Act differ in mechanics and approach. There are a number of features of S. 2223 which I find to be extremely good. The hearings which are being initiated today will help clarify the types of approach which are likely to be most workable and most effective.

But while these bills differ in detail they both have the same objective: to provide needed risk capital and technical assistance to individuals and public bodies for the development of projects which would contribute to the overall economic and social improvement of rural communities, thus furthering the cause of rural development and balanced growth.

Let me conclude by again commending the chairman and members of the subcommittee for beginning hearings on this most vital and important subject. This represents a most worthwhile contribution to the cause of rural development.

Senator Humphrey. I want to ask Senator Allen to present our witness this morning.

First I want to introduce into the record a communication which the committee has received. The Rural Development Subcommittee has written, of course, to the different executive offices of the Government concerned with the activities that relate to rural America. And the subcommittee is extremely anxious to receive the views of all departments which are currently making rural development loans or which are engaged in rural development credit activities or grant activities. If there is some provision in our legislation, or in Senator Pearson's bill, which would conflict with the current Federal program I think it is important that we know about it; in fact we are anxious to know about it. We surely don't want duplication.

And thanks to Senator Sparkman, the author of the legislation for the Small Business program, and the Senator who has been its guiding force over the years, the SBA has been a very important source of financing for businesses all across this Nation, particularly small business and particularly in rural areas.

I therefore invited Thomas S. Kleppe, Administrator of the Small Business Administration, to appear as a witness today. However, Mr. Kleppe has seen fit not to. He has refused to testify, saying that he does not feel he can make a useful contribution to the current hearing.

At this point I want to place in the record Mr. Kleppe's letter, because I think the committee should see it. It is a very respectful letter, and outlines Mr. Kleppe's feelings about not appearing here today at this particular hearing. I would hope that he would reconsider, because we do need to get the views of the Small Business Administration. I think it has much to offer, and I happen to look with great favor upon its activities.

I would like very much for Mr. Kleppe to think it over and we will be back in touch with him.

(The letter referred to follows:)

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., July 21, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR HUMPHREY: This is in response to your letter of July 16, 1971, inviting me to testify before your Rural Development Subcommittee on pending proposals (S. 2223 and Amendment No. 153 to S. 1483) to establish a new Federal rural development credit system and to establish a Rural Community Development Bank.

There is no question about the need for legislation to strengthen the economy of our rural areas. But the form which such legislation should take, and the particular instrumentalities which should be established to achieve the objective, are matters lying outside of our jurisdiction. Accordingly, I do not believe I could make a useful contribution to the current hearings and, on that ground, I trust that you will excuse me.

Let me add that my principal concern, as I follow the developments before your Subcommittee, is that care be taken to avoid the establishment of any program which would duplicate, in whole or in substantial part, the work being done by the Small Business Administration in providing financial and technical assistance to small firms situated in rural areas.

Sincerely,

THOMAS S. KLEPPE,
Administrator.

Senator Humphery. Senator Allen.

STATEMENT OF HON. JAMES B. ALLEN, A U.S. SENATOR FROM THE STATE OF ALABAMA

Senator ALLEN. Thank you, Mr. Chairman. I am honored at this time to welcome the appearance before our subcommittee of our distinguished senior colleague, Mr. Sparkman.

Since coming to the Congress, Senator Sparkman has been a leader in every effort before the Congress to aid in rural development. He has both sponsored and supported measures that would insure a strong agricultural economy. And certainly that is the basis on which an effective program for rural development must be based. Senator Sparkman has been a long-time leader in the TVA legislation, REA, Rural telephones, small business, highways, hospitals, schools, grants for water and sewer systems. And certainly with his service on the Senate Banking Committee, and as chairman of that powerful committee, his expertise in this area has and will add greatly to the committee's work on pending rural development bills, particularly the Consolidated Farm and Rural Development Act. I am certainly delighted that he does appear at this time in support of this legislation and has added his name as a cosponsor of the measure.

As I have pointed out, our distinguished witness has been working for rural development during all the years that he has served in the House and in the Senate. I know that all members of the committee look forward with great interest to his testimony at this time.

Senator HUMPHREY. Senator Sparkman, we are very honored to have you come. You are the chairman of the Banking and Currency Committee where so much of the important legislation relating to credit and financing of many private and public institutions arises, and we want to welcome you as one of the truly great Senators and truly great experts in this field. We need your counsel and your advice.

Will you proceed, sir.

STATEMENT OF HON. JOHN SPARKMAN, A U.S. SENATOR FROM THE STATE OF ALABAMA

Senator SPARKMAN. Thank you very much, Mr. Chairman. I will assure you that I am glad to have the opportunity of appearing before you.

I should like to submit my statement for the record. I will read portions of it, but undoubtedly omit portions.

Senator HUMPHREY. The entire statement will be incorporated as if read.

Senator SPARKMAN. I want to say that I appreciate the statements that all of you have made. I join in your various expressions of both interest and concern regarding the rural area of our country.

I grew up in the country and I have been a farmer all my life. I am still a farmer and I believe I know some of the problems with which our people are confronted.

One of the most urgent and pressing problems facing our national economy today is the existence of rural areas characterized by low levels of productivity and income. The Congress, private groups and individuals concerned over the state of affairs are studying ways of improving the economic status of rural Americans.

I want to commend the distinguished chairman and members of this subcommittee for their efforts in rural America. And I know that the hearings held by this subcommittee will contribute greatly to our knowledge of the scope of these problems, and will provide new insights as to how these rural areas, and the families living there, can best be aided. Rural America has contributed enormously to the economic growth of our country and the preservation and strengthening of our democratic institutions. Its role in our national life has been an important one and must be continued.

I want to commend the subcommittee for its hearings out in the field. I was particularly pleased that the subcommittee went to Alabama, my home State, and the home State of your distinguished member, Mr. Allen. I was glad that you went to my hometown: Huntsville. That is a great big country town, in a great big rural county. Although the town has grown considerably in recent years, the county is still predominately rural. And I can say that for the whole Tennessee Valley. It has had very fine industrial development over the years, but it is still rural.

And, by the way, I believe Senator Curtis mentioned water and sewers and Senator Talmadge did, too. You know last year the Senate passed by unanimous vote, and the House passed on a rollcall vote with only about a dozen negative votes, an additional authorization of a billion dollars with which to provide water and sewers for what we would call the rural areas. I was pleased to be the author of that legislation in the Senate. And Congressman Patman offered the same bill in the House of Representatives.

You will remember that only a few years ago we passed a bill, I believe, providing a billion dollars that was sponsored chiefly by Senator Aiken but on which, as I recall, 93 Senators joined and under that program a tremendous lot of improvement was brought about, until it became used up. And that is what prompted the introduction of the billion dollar additional bill just a year ago.

By the way, I mentioned your going to my county. I think I am safe in saying that practically every acre of that county has water and sewers. There must be a dozen, about a dozen different organizations, and now they are in the process of consolidating all of them into one countrywide organization, so that the entire county, as the result of this legislation that has been mentioned, has been able to bring water and sewer service to the communities over the whole county.

By the way, while I think of it, I want to call to the attention of Senator Curtis that he and I served together on the House committee back in 1940, 1941, and 1942—I guess it ran on through 1943, I believe; I am not sure. I believe the title of that was "Migration of Destitute Persons." That was in the days of the Okies and the Arkies and the sandstorms and all of those things and I have always felt that that was a very fine study. It became diverted when the war came on.

I remember President Roosevelt, for instance, asked us to go out to California to hold a hearing and make a report on the Japanese-American situation and we did that.

And then the question came of shifting workers from one community to another. In other words, it got away from the complete migration of indigent—what was that?

Senator CURTIS. As I recall the name of the committee was the Committee To Investigate the Interstate Migration of Destitute Persons.

Senator SPARKMAN. "Destitute" is the word. I said "indigent."

Senator CURTIS. It was requested by the California delegation. At that time great numbers of people were moving into California, and California was stopping some of them at the border; they couldn't take care of all of them; they didn't have jobs for them. They were loading up their schools and they had hospital problems and they wanted Federal help.

I might say that the reason I got interested in it was that I felt that just more and bigger relief in California wasn't the answer at all. Many of these people came from the Great Plains States, and they came there because of drought. And out of that, if you will examine some of the hearings, particularly the hearing at Lincoln, Nebr., and the report, you will find that that hearing and report gave an impetus to the development of irrigation, particularly in the Great Plains States. Of course, not all of it is traceable to that, but as I say, it gave impetus to it. And the likelihood of ravages from drought and duststorms were very much reduced because of the conservation practices that followed.

I learned a great deal in that committee, and that is one of the reasons why I feel that the economic causes and the economic answers are the only ones that will last.

Senator SPARKMAN. It was an eye-opener as to the rural conditions at that time.

Then Mr. Chairman, in 1949 I had the pleasure of being the chairman of the Subcommittee on the Joint Economic Committee that was entitled "Subcommittee on Low-Income Families." At the time, the idea of extending aid to depressed areas and in particular to the rural areas was first advanced. A report issued by that subcommittee—by the way, here is the book borrowed from the Joint Economic Committee that contains that report. And it has been most interesting to go back and review it. It might be interesting to note the makeup of that subcommittee.

I was chairman. Senator Ralph Flanders was the only other Senator on the subcommittee. Then we had Congressmen Walter Huber, of Ohio, Frank Buchanan, of Pennsylvania, and Robert F. Rich, of Pennsylvania. It was quite a subcommittee, and worked rather hard and I am still proud of the work that we did.

As a result—I bring a good bit of this out in detail in my statement, but I shall not read it—as a result of this study we urged that the Department of Agriculture—my own recommendation was that the Department of Agriculture should pick out a thousand of the poorest rural counties in the United States and start working on a rural development program. Actually they never got that high in number. In fact, they started on a rather low number; I think probably 50 or something like that.

And then in 1961 we passed the Area Redevelopment Act. I think I am correct in saying, if my memory serves me correctly, that came out of the Banking Committee of which I was a member, but I was not the chairman. I urged that 500 counties be placed in there. I believe they have actually placed 500 counties in there for rural development programs to be started.

And then there were other actions through the years. In 1949 I was chairman of the Housing Subcommittee of the Banking Committee. And I introduced legislation that would provide direct loans to farm families. That was a most successful program, and has been through the years.

I have often interested myself in driving through rural areas anywhere and just picking out the houses that have been built under the program. You can almost identify them.

Finally, we couldn't appropriate money fast enough to take care of that program so we modified it by providing an insurance program whereby the mortgages would be taken out and insured, very much like they were insured under the Federal Housing Administration. The program was stepped up considerably.

Finally, in 1968, when we passed the 1968 Housing Act, you may recall that we established two programs, 235 and 236 housing—which, by the way, have proved to be, I suppose the most popular housing programs, and perhaps the best to take care of the low-income people, that we have ever had.

Of course, when it was being presented for consideration in the committee those were felt to be for urban areas. And they were.

We had no trouble getting that through. You know, it has always been noticeable to me that we can get housing legislation or almost anything for our crowded urban areas. But people overlook the rural areas.

I was presiding over the committee when we passed the 235 and 236 programs. And as soon as they agreed to it—I said nothing about rural areas until that point—then I said, now, gentlemen, this is fine what we have done for the urban areas, but I want to remind you that there are just as bad slums in rural areas as there are in urban areas, and 50 percent or more of the poverty of America is to be found in rural areas.

Senator HUMPHREY. I think that is so terribly important to keep emphasizing, Senator, because it is constantly forgotten. That is probably one of the reasons for this subcommittee, to put some emphasis on this great area that you are mentioning now.

Senator SPARKMAN. Yes. And we see the slums in the city; we see the ghetto areas there; we see the crowded conditions. Maybe we don't go out into the rural areas enough to see the dilapidated housing there and the abondoned houses, and so forth. And I said: "I want you to enact exactly the same program for rural areas."

I think it rather stunned them when I said that, but they agreed to it. So we started a new rural housing program. That bill was signed into law as an omnibus bill. It was an enormous bill. Of course, it had lots of housing in it. It was over 300 pages long. I was down at the signing. It was signed at the new building that had just been opened down here; HUD. And I was sitting next to President Johnson. The bill was lying on the table and I just turned it over and saw how many pages it was and I said: "Mr. President, there are 357 pages in that bill."

And so when he started to sign it he said: "John Sparkman has memorized every word in this bill."

And I said, "Mr. President, that is not technically correct, but it is almost correct"—because it had taken a long time and lots of work to develop that bill.

That was signed on August 1, 1968.

You know, lots of times programs are so slow to get into effect but the first contract under that bill was signed on August 19, 1968, at a little town called Triana, Ala., in Madison County. That was the first loan that was financed by the bank.

Senator **Humphrey**. You said that was in Alabama?

Senator **Sparkman**. That was in Madison County, Ala.

And by the way, I meant to tell you that the first direct farm loan was made in Alabama, too, in Jackson County, Ala., which is my neighboring county, and the home county of my successor in the House, my Congressman, Bob Jones, who was most active in that legislation.

But anyway, it shows the program can get started.

Now, about 5 years ago I went on a trip with Secretary Romney primarily in Alabama, and we went to Madison County, Ala. We drove out into the country about 15 miles. And we saw some of the best housing, brick homes, three bedrooms, being built at a reasonable cost, and with reasonable terms for financing, for rural families.

The big problem, as I see it, in the rural sections—and there is no question but what the people are still moving from the rural sections to the cities—and I think we ought not only to stabilize the population in the rural areas, but I think we ought to be able to reverse it and pull some of those people back out of the crowded cities into the rural areas.

And, as has been brought here by all of you, we need better job situations, job training, housing, water and sewers, schools, good roads. And most of this is based upon adequate credit in the rural areas.

There are other problems. We have tried to get housing built in rural areas, but you can't interest the builders in going out and building housing in rural areas, because usually it is one house. If we could ever get to the point where we could develop a community and have a sufficient demand out there for housing, then you can get the builder to go out and build it.

We have amended the law from time to time to provide better opportunities with the Federal Housing Administration. We have increased the size of the towns that can be termed rural areas, because small towns, small cities have the same problems as rural areas have. We have got to do something to locate light industry in those areas so as to furnish job opportunities.

Senator Curtis mentioned the industrial development bond exempted from income tax. We have had quite a struggle to get it up as high as \$5 million. It ought to be increased; I agree with you.

But there is something else I want to call attention to. Back a good many years ago, in 1954, I guess it was, I offered an amendment to the—when the Small Business Administration was set up. I offered an amendment to that bill which became section 502, authorizing SBA loans to assist communities and small towns, and so forth, to build facilities for industries to move in. A remarkably fine job has been done. I can point to my own State and Senator Allen knows this to be true.

I can name the little place of Pisgah up on San Mountain where, under section 502 one of the earliest projects was put in. They opened that plant, and with a year's time they were working more people than there were inhabitants in that town.

Now, you can imagine what it did for the area. The plant has since been doubled and quadrupled.

Senator **Humphrey**. How does that particular section of SBA work? What is it, a guaranteed loan or direct loan?

Senator **Sparkman**. Ordinarily it works in cooperation with a local development company. The local development company puts up a part of the money and SBA makes a loan that can go as high as 90 percent of the cost of a building and the necessary equipment.

Senator **Humphrey**. It is primarly industrial development; is that what it is?

Senator **Sparkman**. Industrial development; that is what it is. Actually I got that idea from New England. They had such development boards there, and sometimes on a statewide basis. Our State of Alabama last year authorized a State Industrial Development Board. By the way, we have a very fine department of industrial relations in Alabama that works on all sized industries, including small. We have a very active and aggressive regional director of the Small Business Administration down there. And he has done a very fine job, and I endorse that as a method of getting jobs out there. And all of these other problems, I know you have dealt with them. I cannot take more of your time.

I enjoyed being with you very much, and I do submit the statement.

(The prepared statement of Senator Sparkman follows:)

Senator **Sparkman**. One of the most urgent and pressing problems facing our national economy today is the existence of rural areas characterized by low levels of productivity and income. The Congress, private groups, and individuals concerned over this state of affairs are studying ways of improving the economic status of rural Americans.

I want to commend the distinguished chairman and members of this subcommittee for their efforts in behalf of rural America, and I know that the hearings held by this subcommittee will contribute greatly to our knowledge of the scope of these problems and will provide new insights as to how these rural areas, and the families living there, can best be aided. Rural America has contributed enormously to the economic growth of our country and the preservation and strengthening of our democratic institutions. Its role in our national life has been an important one, and must be continued.

In 1949, I had the pleasure of chairing hearings before the subcommittee on low-income families of the Joint Economic Committee. At that time the idea of extending aid to depressed areas and in particular to the rural areas was first advanced. A report issued by that subcommittee revealed that in every State in the Nation there are areas of concentrated law-income rural population, unable to lift themselves by the bootstraps economically because their capital and productive resources are inadequate. Despite congressional efforts to provide the economic infusions needed to raise these areas from their depressed condition, the problem of rural poverty is still with us.

Making these rural areas attractive, not only in terms of economic opportunity but also in the quality of life they offer, is vital to the future of this Nation. We have experienced an outpouring of population from rural areas to the urban complexes, that according to a recent census report, continues unabated. People, and in particular young people, have left the rural areas to seek the greater economic, cultural, and social opportunities of the urban areas. As our rural areas have lost population, the urban areas have experienced a rapid growth in the social problems of overcrowding, pollution, and crime. This outward flow of population must be stemmed if rural areas are to have the qualified manpower needed to develop them and if the growing pressure on urban areas is to be lessened.

In approaching the problems of rural development, a careful analysis of existing Federal programs to aid in this effort and of the further needs of rural areas is a must if new legislation is to be effective. Since the subcommittee I chaired of the Joint Economic Committee first explored developing economically depressed areas, a number of Federal programs in rural development have been established. It has been my singular pleasure to work with the distinguished chairman and others of this subcommittee in the passage of legislation to institute these programs.

I recall in 1955, when Members of the Congress were finally able to convince the then Secretary of Agriculture Benson to designate 50 counties with the greatest concentration of low rural incomes as pilot projects for increased credit and technical aid for small farmers. The number of counties receiving assistance under this program had expanded to 300 by the time the Area Redevelopment Act was passed in 1961. The ARA allowed loans to be made for qualified public facilities projects and private industrial and commercial redevelopment in rural areas. We were successful in securing approval to include the earlier designated 300 low-income counties as eligible for assistance under the Area Redevelopment Act. Also, through my efforts and those of some of my colleagues, a movement to strike the entire section providing for rural redevelopment loans from the Area Redevelopment Act was forestalled in committee.

To make the loans for public facilities projects under the Area Redevelopment Act more financially attractive to rural areas, I offered an amendment to lower the interest on these loans to a point comparable to that available on college housing loans. This amendment was adopted by the Senate and ultimately incorporated into the act.

Through careful planning, the rural areas can achieve their economic potential without the social ills experienced in the rapid, and far too often, unplanned development of the urban areas. For this reason I am particularly glad that the Housing and Urban Development Act of 1968 amended section 701 of the National Housing Act to permit HUD to make grants to district planning agencies for assistance to nonmetropolitan districts conducting areawide comprehensive planning programs.

To secure funding for the grants authorized for rural and small town planning, I sponsored an amendment to increase the section 701 appropriation for fiscal year 1969. Ultimately, $2.2 million was appropriated for these nonmetropolitan planning districts. The first report on rural planning submitted by the Department of Housing and Urban Development in compliance with section 901 of the Agricultural Act of 1970, states that in the 2 fiscal years of 1969 and 1970, HUD made grants totaling $3.8 million to assist 131 district agencies "performing comprehensive planning services for areas that are principally or entirely nonmetropolitan in character." HUD estimates that $3.2 million has been expended for rural planning in the fiscal year that just ended. I would hope that the Department of Housing and Urban Development would fully implement this program in order to promote the sound planning intended by the Congress.

In addition to the depressed economic state of many rural areas, in many instances these areas also lack basic facilities for the improvement of the quality of rural life. Fifty percent of housing in rural America is substandard. Medical services are inadequate. And public utilities still have not reached some.

The biggest obstacle rural people face in obtaining decent housing is the lack of housing credit. For that reason, Federal Housing Administration programs have had little impact in rural areas. FHA's guaranteed loan program requires the prospective homeowner to find a lender, and lenders are very scarce in rural areas. Smalltown banks, for instance, are unable to tie up their limited capital in long-term housing loans. Moreover, there are few large lending institutions which will make mortgage money available to rural areas.

In recognition of the handicaps rural areas face in regard to housing, I sponsored a provision more than 20 years ago, which became law as part of the Housing Act of 1949, to authorize the Farmers Home Administration to make direct loans for housing. Originally these loans were made at 4 percent interest for moderate income families living on farms.

In 1961 we broadened Farmers Home Administration's authority, authorizing it to make loans to rural nonfarm families as well as farmers. The demand for these direct loans was so great that, in 1965, Congress approved a new method of financing the Farmers Home Administration program, which until then had relied on direct appropriations from the Treasury. It was obvious that the tremendous amount of funds required for rural housing loans would not be forthcoming by appropriations. Congress, therefore, gave Farmers Home Administration authority to sell insured housing notes to private investors. And in that same legislation, Farmers Home Administration was permitted to make loans to people residing in small towns of up to 5,500 population. Thus, FHA was able to expand its rural housing loans from less than $70 million in 1961 to nearly $500 million last year, or about enough to provide for 50,000 new or rehabilitated housing units.

In 1968 housing legislation, FHA authority was further expanded, enabling the agency to provide subsidy payments to low-income rural people so as to reduce interest rates to 1 percent.

Further expansion of the FHA program will be possible by important new amendments Congress included in the 1969 Housing and Urban Development Act. These amendments give the FHA program the capability of financing between 300,000 and 400,000 new or rehabilitated housing units a year and with little impact on the Federal budget since Farmers Home Administration raises its funds by the sale of notes on the private market.

Other provisions will make it possible for local people to become involved in helping to meet housing needs of their areas. The 1969 law includes a new section 524, which I had the honor of sponsoring, authorizing FHA to make loans to local, nonprofit associations or corporations to buy and develop land as homesites for low- and moderate-income people.

Through programs such as there, progress can be made in eliminating substandard housing in rural areas.

The Nation is suffering from a serious shortage of medical facilities in small towns and rural areas and it is surely a Federal responsibility to help remedy this shortage. Many young doctors will be pleased to settle in small towns if they could afford the equipment and treatment facilities that are necessary in modern medical practice. Without some assistance it is usually impossible for such facilities to be built in rural areas. At the present time, there is no Federal program to help people living in small towns to secure a doctor. Towns may build clinics with local public funds, but many independent minded young doctors find the regulations imposed in a community owned facility restrictive and would prefer to practice in a facility of their own.

Last week, I introduced legislation to authorize Federal Housing Administration insurance for the financing of medical clinics sponsored by from one to four doctors. This authority would be limited to clinics to be located in rural areas, small towns or low-income inner city areas. The Banking, Housing and Urban Affairs Committee initiated legislation in 1966 that provided for FHA insurance for group practice facilities for five or more doctors, and I see no reason why this proposal to initiate Federal aid to rural areas to secure medical treatment would not be equally acceptable to the Congress.

When I first came to Congress, 90 percent of the rural families in my district still did not have electrical power. However, through such programs as REA and TVA, this situation has been completely reversed. Today, less than 10 percent of the rural families in that district are without electricity.

Although great strides have been made in rural electrification and much credit is to be given to the rural electric cooperatives, no family in America should be denied the opportunity to enjoy the great advantages in daily life made possible through electricity.

Despite the gains which have been made, the job of developing rural areas has not been completed. It has been demonstrated that with a combination of loans and technical assistance, rural people can be lifted to selfsufficient, independent status with little immediate cost but great long-term gain. But there has never been sufficient authority or funds to reach the many rural communities whose economic stability and standard of living are below the minimum or adequate level. For this reason, I take great pleasure in cosponsoring S. 2223. I believe that this bill will promote the cooperation of all levels of government in rural development efforts and will provide the funds so necessary if these efforts are to be successful.

The reorganization of the present loan programs of the Department of Agriculture, provided for in this bill, is needed if the funding requirements of rural areas are to be effectively met. By placing the responsibility for all rural credit in a new Assistant Secretary of Agriculture, S. 2223 will expedite the securing of loans for rural development. Equally important is the expansion of Federal loan authorization, particularly in nonfarm programs. I feel that the Consolidated Farm and Rural Development Act is a major step toward fulfilling the commitment made in the Agricultural Act of 1970 to develop the rural areas, and I am proud to be associated with this legislation.

Senator SPARKMAN. And, Mr. Chairman, I should like to submit a statement that has been sent to me by Mrs. Elizabeth Edwards, executive director of the Coosa-Elmore Community Action Committee, Inc., down at Wetumpka, Ala. I would like her statement and such parts of the exhibits attached that you feel should be included, to be included in the record.

Senator HUMPHREY. We shall be happy to do so, Senator.

Senator SPARKMAN. Mrs. Edwards has done a very fine job and continues to do so.

(The statement is as follows:)

STATEMENT OF ELIZABETH T. EDWARDS, EXECUTIVE DIRECTOR, COOSA-ELMORE COMMUNITY ACTION COMMITTEE, WETUMPKA, ALA.

Mr. Chairman, and members of the Sub-Committee, thanks for the opportunity to express our concern for the people of rural America.

First let me tell you about Coosa-Elmore Community Action Committee.

Community Action in Coosa and Elmore Counties is local citizens working together to improve the lives of the poor.

The Office of Economic Opportunity Act of 1964, as amended in 1967, gives local citizens an opportunity to solve the problems of poverty at the local level.

Coosa-Elmore Community Action Committee was established in 1967 and functions under a group of volunteer leaders from all parts of the community, including representation from the poor. A small staff is employed to carry out the policies and programs of the community volunteer leaders. The staff consists of a director and some professional and non professional employees who are in this work because of a deep, personal dedication in assisting the poor to break out of the iron circle of poverty and apathy.

The primary goals of Community Action are: to seek out the poor; provide opportunities and capabilities for effective participation of the poor in the planning, conduct, and evaluation of programs which affect their lives; generate new and better approaches to solving problems created by poverty; build effective communication bridges between the poor and non-poor; and strengthen the planning and coordination of anti-poverty programs so that the resources invested will produce maximum progress.

Community Action seeks new ways of opening economic opportunity, of raising the capacity of individuals to participate in the economic life of Coosa and Elmore Counties. We realize that an income maintenance program will keep people alive, but it will not solve the basic problems that keep people poor and dependent. Community Action works to provide new programs and knowledge needed to afford these people new skills and confidence and dignity.

Since people, natural resources, job opportunities, good educational opportunities, and means of transportation are vital to successful living, we would like to suggest a few things we feel your committee can do to improve rural America.

Promote government guideline change that hampers the tenant from having a small garden where he resides on land that the owner is receiving soil bank benefits which restricts such small gardens for the tenant and permits the gardens for the owner.

Change the conflict of required room sizes for foster homes of day care children, since 202 Housing builds rooms that are too small to meet the requirements of the Department of Pensions and Security.

Provide Community Action Agencies, such as Coosa-Elmore Community Action Committee, funds for demonstration projects like our small feasibility test program so that the people with the problem of poverty can be evaluated effectively

and assisted in going from where they are to being more efficient, productive tax paying citizens of their area.

(The attachments are on file with the subcommittee.)

Senator HUMPHREY. Just a point or two before you have to leave, Senator Sparkman.

You mentioned the successful work in the Huntsville area in Madison County.

Senator SPARKMAN. Yes.

Senator HUMPHREY. The water and sewer systems. Would you attribute some of that to the planning coordination that is made possible through the TVA?

Senator SPARKMAN. Well, may I put it on somewhat of a general basis? The TVA has shown the way in that area in many, many things. And whether or not it was the TVA, we always knew that it was there; we could call on them for assistance and planning.

And I may say this: we have had some very wideawake officials down there, including, for instance, the chairman of our County Board of Commissioners. And he has worked hand in glove with the communities and then we have got some wideawake communities.

I can give you this little incident: When the Aiken resolution was pending, the one that 93 Senators cosponsored—the others, I think, were out of town at the time, and didn't get their names on it—I had a call from an attorney down in an area there, a very fine farming area.

And he said: "We want to organize and get water and sewers for our county."

They were talking about going through the Farmers Home Administration.

And I said: Let me suggest that you not file this application yet. I said: I think this bill that is pending now will be law within 60 days, and you just go ahead and get up your facts and your subscribers, and so forth, but wait until this goes through.

Well, he did and he was ready when it went through and I daresay that that application became one of the first to be approved under that new law and it is a very big one, one of the biggest ones in our counties.

We have had good leadership in the communities that have gotten in and worked on these things. And, after all, a lot depends on that in all of this rural development. Somebody has got to take the initiative and provide the leadership.

Senator HUMPHREY. Exactly.

When I met with the county officials—which, by the way, I consider one of the most important meetings I have attended in many years because I found a great desire on the part of the county officers, rural- and urban-oriented, to move on these programs, and particularly the county officers in rural America. There were over 2,000 of them at Milwaukee this past week, starting Sunday and running through Wednesday; about 2,500, in fact. And one of the things that we worked over, not necessarily in speech form, but in our general discussions, was the importance of certain revision in the powers of county government to do the kind of coordinating that is necessary.

The county unit of government is becoming evermore important, and of course, equipping county government with the technical experts and the professionals that are needed to move along with modern lines, and I couldn't agree more with what you are saying about local leadership. We saw that in your area. I was very impressed, in fact, by what we found in the Huntsville-Decatur area and through there.

And second, I was very much impressed when we went up to Alma, Bacon County, in Georgia, where I saw this young mayor and some of the county officials there. You could just see by the people that programs were going to work.

I have often found as I traveled around, that people really don't sometimes even know about the program, and that regrettably sometimes State governments don't even tell the local governments about the programs. There is no substitute for somebody that is an eager beaver wanting to get these things moving. That is really what much of it boils down to.

Senator SPARKMAN. By the way, may I mention in that connection, I told you about this first home loan under the new program that was made down at Triana. Triana way back when river transportation was an important thing, was quite a town. It was a port. There is not a great deal there now, but it is a minority community. It is almost completely black. The mayor is black. The council—there may be one white man on it; I am not sure, but it is made up primarily of black citizens, and that mayor is one of the most wide-awake, active persons I have ever known, and the leadership that he has demonstrated in that community is something to admire.

By the way, I read in the paper about your appearance before the county officials, and I saw they liked what you said, and they gave you a rousing ovation.

Senator HUMPHREY. Yes; they were good, but I liked them better than they liked me.

Senator SPARKMAN. May I mention just one other thing: I didn't mention the need in these rural communities for better medical service. I think it is a great need, and it is one that has grown greater as years have gone by, because our doctors are concentrated very largely in the big cities, and that fellow who lives at the head of the cove may be 20 or 25 miles away, and if he has sickness in this family it is most difficult to get a doctor out there, and lots of little towns would like to have a doctor and can't get one.

Two years ago, in the 1968 Act, we wrote in a provision that authorized Federal housing insurance to assist in—medical facilities that would be occupied by as many as five doctors. Well, of course, most of these little towns and rural areas don't have a need for five doctors. They can't even get one.

I have a bill pending now that reduces that number to one. I hope we will have it on the Senate calendar within the next few days.

Senator HUMPHREY. That will be wonderful.

Senator SPARKMAN. And I think that can do a lot of good toward getting better medical services out in the rural areas.

Senator Allen will recall—in fact he may have been there; I am not sure—the hospital up at Lester in Limestone County. It was built, by the way, under a Small Business loan, and it was built largely because of the leadership of a doctor who grew up in that community. He beat anybody I ever saw. When I was a Congressman representing that district he wanted a post office there, and I said: you can't get a post office there; it is just a crossroads community. But, by George, he got that post office.

And then he said: "I want you to get me a rural route."

I said, "Why, all of the rural routes come out of Tennessee; I can't change one of them." But he got a rural route.

And then he wanted this hospital. He built a hospital, but unfortunately just about the time the hospital was built he died. They have had a terribly hard time in getting a doctor to come in there. It is a fine community, but it is not a town—well, it is a small country town and just recently they did get a doctor that would come in and establish a clinic there.

I think we will make it possible for a young doctor to build a facility and equip it so that he can render the right kind of service. I think it will mean much for the rural communities.

Senator **Humphrey**. Senator, I notice that you have been willing to join us as a cosponsor of S. 2223.

Senator **Sparkman**. Right.

Senator **Humphrey**. I consider this a major development for the success of this legislation.

Senator **Sparkman**. I think it is a landmark bill.

Senator **Humphrey**. I think that your joining us is a landmark decision and I want to thank you very, very much.

Senator **Sparkman**. And I believe if you would read the reports back there in 1949 and 1950 you will agree with me that they promised to carry out many of the things that we recommended.

Senator **Humphrey**. Senator Allen.

Senator **Allen**. I certainly want to commend Senator Sparkman on his very fine testimony and to again express my admiration for him and my pride in his accomplishments through the years in making a better life for all our people. I feel that Senator Sparkman, through the years, has been a one-man Rural Development Committee.

We recall the fine, busy, bustling community that we visited with our Rural Development Subcommittee in Alabama earlier this month. Senator Sparkman had represented the Huntsville-Decatur Congressional District since 1936, and has been in Congress from the days of 5-cent cotton up to the present time. His dedicated work in Congress has played a big part in the development of that area, and all of Alabama, and the entire Nation. We are mighty proud of Senator Sparkman in Alabama and of his many outstanding contributions to our people. He is a great public servant.

And I know, too, that the entire country is, Senator Sparkman.

Senator **Sparkman**. Thank you very much.

Senator **Humphrey**. Senator Bellmon.

Senator **Bellmon**. Thank you, Mr. Chairman.

I want to compliment Senator Sparkman for the outstanding record he has made in trying to help build rural America. And I certainly compliment him on some of the ideas he has brought here this morning, particularly the idea of making funds available so that the rural communities can have medical facilities located close by.

Senator Sparkman, there is one question I have: Mr. Williams of my staff has just presented you a copy of a bill I have been thinking about introducing. If we are going to have a strong rural economy we are certainly going to have to make is possible for people in these areas to have good incomes. And it has come to my attention that an administrative ruling of the Small Business Administration has kept them from making loans to producers; they make loans to food processors, but they refuse to make loans to producers.

And the result of this is that a banker in a small town who may wish to help a local industry is able to go to the SBA and get participation if the bank is willing to make 10 percent of the loan and take 10 percent of the risk, or if it is willing to make one-fourth of the loan and take that risk, the SBA will help. But, a producer of food is not able to do this.

I don't expect you to know immediately whether you could support that kind of approach. But it looks to me like the administration decision of the SBA has perhaps been contrary to the desire of the Congress when the Small Business Act was passed.

Do you know whether it was the intent of the Congress that the Small Business Administration should refuse to make loans to food producers?

Senator **SPARKMAN**. No; I can't say what was the intent. Of course, the SBA, when it was first organized was faced with the problem of drawing up regulations defining the area in which it would operate. The thought occurs to me—naturally I would be friendly toward something like this if there is not some good reason for not having it—but the thought occurs to me, just reading this over quickly, that all of this is covered under the Farmers Home Administration. In fact, way back it was originally organized as the Farm Security Administration back in the deep depression days. And it did a remarkably fine job with its production loans.

Now, the Farmers Home Administration makes production loans and I don't see why they couldn't cover this area. As a matter of fact, I have a farm. I have a tenant on it, and he uses the Farmers Home Administration for his production every year.

Senator **BELLMON**. Senator, I don't wish to press the matter now, but if you would look this over I would like to discuss it with you.

Senator **SPARKMAN**. I would be very glad to; yes.

Senator **BELLMON**. Thank you, Mr. Chairman.

Senator **HUMPHREY**. Thank you very much, Senator Sparkman. We really appreciate your presence here this morning.

Senator **SPARKMAN**. Thank you, Mr. Chairman, and gentlemen.

Senator **HUMPHREY**. Our next witness is Mr. Campbell, representing the Department of Agriculture and we are looking forward to his testimony.

Mr. Campbell, you are Under Secretary of Agriculture, and we welcome you.

Mr. Campbell, I believe that we had in mind originally that we would just start with questions of the witness. But, since we received a copy of your testimony just this morning I would hope that you might proceed with your testimony, and at the conclusion of your presentation and that of your associates we would then want to ask you some questions.

STATEMENT OF HON. J. PHIL CAMPBELL, UNDER SECRETARY OF AGRICULTURE, AND JOSEPH HASPRAY, DEPUTY ADMINISTRATOR, FARMERS HOME ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. CAMPBELL. Yes, Mr. Chairman, if I may, I would like to read the statement which I have.

Senator HUMPHREY. Would you identify the gentlemen with you.

Mr. CAMPBELL. Assistant Secretary Cowden is with me, Mr. Chairman, and Joseph Haspray, the Deputy Administrator of the Farmers Home Administration of the Department of Agriculture.

Senator HUMPHREY. Thank you.

Mr. CAMPBELL. We appreciate the opportunity to appear before you, Mr. Chairman, and before I begin reading the prepared statement, I would like to say that one thing that has to be done in rural America to have a prosperous rural America is to have a prosperous agriculture. And the subject this morning, of course, is rural development; not pertaining directly to farmers and their income. But we feel the starting point, really, for a prosperous America is a prosperous agriculture and prosperity of the individual farmer before we can have real prosperity in rural America.

We are here today at the invitation of the subcommittee to submit the views of the U.S. Department of Agriculture on S. 2223, a bill to amend the Consolidated Farmers Home Administration Act of 1961, and for other purposes; and also to offer views on amendment 153 to S. 1483, a bill to create a Rural Community Development Bank to assist in rural community development by making financial, technical, and other assistance available, and for other purposes.

S. 2223 undertakes to provide a new conduit for the transfer of credit from the financial money markets to rural areas; and to provide a supplemental system of subsidies to the borrower to bring his cost of money borrowed, where needed, down to a level that will permit him to undertake projects to carry out rural development purposes which would otherwise not be feasible at the going commercial interest rate.

Amendment 153 to S. 1483 has a similar purpose: to create a Rural Community Development Bank to provide financing and capital for the development and redevelopment of rural areas.

Rural development is an idea pressing hard for priority recognition and for a more ready access to the resources of the economy, private and public. One measure of the interest in the subject is found in the numerous bills introduced in this session of Congress designed to stimulate rural and community development.

The administration has been moving vigorously to upgrade rural development in its order of priorities. The President gave early recognition to rural development in his first state of the Union message in which he stated in part:

> We must create a new rural environment which will not only stem the migration to urban centers but reverse it. If we seize our growth as a challenge, we can make the 1970's an historic period when by conscious choice we transformed our land into what we want it to become.

The President's reorganization proposals and the revenue-sharing proposals highlight and give new prominence to rural development as one of the primary components in the administration's domestic programs.

The Department can point to spectacular growth in its commitment to rural development activities by itemizing the increases in funding for rural development programs in USDA as follows:

Funding of USDA principal rural development programs in fiscal year 1977 is more than four times the fiscal year 1961 level ($2,668 million versus $575 million) and two times the fiscal year 1969 level ($2,668 million versus $1,369 million).

An expanded low- to moderate-income housing program accounted for $1.1 billion of the $1.3 billion rural development program increase between fiscal year 1969 and fiscal year 1972. However, increases were made in other areas, too. Thirty-one of the 39 programs have been increased above fiscal year 1969 levels.

Number of FHA rural housing loans and grants has more than doubled from 55,429 in fiscal year 1969 to an estimated 138,582 for fiscal year 1972.

Number of rural water and waste disposal system loans and grants has gone up from 1,313 in fiscal year 1969 to 1,700 estimated for fiscal year 1972.

Soil Conservation Service resource conservation and development, flood prevention, watershed, and river basin programs, have expanded from $104 million in fiscal year 1969 to an estimated $158.5 million for fiscal year 1972.

Extension Service community development programs by fiscal year 1972 will be 50 percent more than in fiscal year 1969.

Research on rural development and housing is expected to be more than double the fiscal year 1969 level.

Rural Electrification Administration telephone and electric loan levels have been stable since fiscal year 1969 but a supplementary financing bank for electric co-ops has been established and legislation for a telephone co-op bank has been passed by the Congress, signed by the President, and $30 million has been requested in 1972 for the purchase of capital stock in the telephone bank.

We need also to give full credit and recognition to the offerings of other agencies of the Federal Government active in rural areas, such as the Economic Development Administration, Small Business Administration, the Department of Labor, the Department of Health, Education, and Welfare, and the Department of Housing and Urban Development.

These Government programs are all important, each making its own contribution to rural areas. But neither the individual programs, nor the sum total of all the programs; not all of this Government effort put together, measures up to the broad vision stated by the President in his 1970 state of the Union message.

If rural areas are to fulfill their rightful role—as the desirable place to live and to raise a family; as the place to work and earn a living; and, as the place for rest and recreation for our growing population—then provision must be made for reordering of priorities and for strong advocacy in behalf of the needs and expectations of rural America.

Provision must be made to open new and more equal opportunity for rural people and rural communities to avail themselves of existing program; and wherever needed and in the public interest to improve existing programs.

This is one of the major thrusts of the rural development sections of the President's reorganization proposal and the rural revenue-sharing proposal. Likewise, this is the major objective of S. 2223 and of amendment 153 to S. 1483. Both the administration's proposals and the Senate bills share a common interest in their declared intention to stimulate the economy of rural areas.

S. 2223, in its approach to rural development, places its main reliance on the creation of a permanent national banking system complete with branch banks. It is essentially a single purpose bill: To provide a specialized form of credit service for rural areas. Amendment 153 to S. 1483 undertakes to provide similar credit services through a more simple structure.

The administration, on the other hand, approaches rural development as a more complex undertaking involving people, their needs and aspirations; the social structure in which people work and live, the generation of economic activity and the creation of jobs, community development and the building and strengthening of institutional structures and supporting systems.

Full recognition is given to the need for financing in rural areas. The rural revenue sharing program will direct over a billion dollars of Federal funds into the rural areas for management by State and local people. Revenue sharing and its companion, the reorganization proposal, will establish new institutional approaches to Federal program administration which will materially improve the quality of delivery of programs to rural areas.

Not only is revenue sharing intended to deal with the provision of direct services, and with financial problems of the public sector at the State and local level, but such funds can also be used by State and local governments to give credit assistance through locally sponsored institutions for accelerating the expansion of commercial and industrial development in rural areas. Such institutions may be useful in those specific areas where there are shortages of private investment capital, and where the removal of barriers to the free movement of private capital may not entirely meet local needs. The establishment of State and local institutions is preferable to creating a nationwide federally sponsored community bank. It places both capability and responsibility for decisionmaking and action closer to the people who require assistance, and it is more likely to result in establishment of such institutions only in those specific cases where they are truly needed.

The physical act of placing the programs of the several agencies, active in rural areas, under the direction of single mission-oriented administrators, as provided for in the President's reorganization proposals, will set into motion natural forces that will bring about consolidation, streamlining and restatement of purpose and the methods for their accomplishment.

Specific purpose and limited objective programs will be merged and consolidated with other related and similar programs. Under imaginative direction in the executive departments, stimulated by the opportunity for creativity that will be generated by the reorganization; and with encouragement from the Congress, the result can be a thorough going restructuring of all programs and methods of delivery. Among other results this process will bring into being a more universal type of credit service responsive to the full range of rural credit needs.

Let me comment now on selected features of S. 2223: those parts that establish new and substantive authorities or which raise policy and operational questions that need clarification.

(1) Section 103 raises the authorization level for Farmers Home grants from $100 million to $300 million. Appropriations would be handled through the established appropriated budget process. At the present level of commitment the $100 million level is adequate for program purposes.

(2) Section 103 also broadens the authorities of Farmers Home to include all of the rural community development projects as defined in section 105. This would give duplicative authorities to both FHA and the Rural Development Credit System, leading to a series of policy and management questions: which agency is to do what; how will the budgets of the two agencies be coordinated; will the terms and conditions of the two agencies for loans for the same purpose be the same or different, and a host of similar operational questions.

(3) The bill is silent as to the overlap between its new purposes and authorities and those of other departments and agencies of Government now offering loans and grants in rural areas for similar purposes. Chief among these agencies with similar programs are Economic Development Administration, Small Business Administration, Housing and Urban Development, Health, Education, and Welfare, Department of Labor, and others.

Both the Rural Development Credit System and the Farmers Home Administration under its broadened powers would, in order to be responsive to the purposes of S. 2223, be projected into the program areas now served by these other agencies.

Further, because of their wide flung and locally based delivery systems, the RDCS and the FHA would have a natural advantage in promoting their offerings resulting from local accessibility. Inevitably the RDCS and the FHA would preempt the programs of other agencies.

(4) The term "rural community development project" as itemized in section 105 is the same as the administration's definition in the rural revenue-sharing legislative proposal. We have taken note in items 2 and 3 preceding that the granting of these broad powers to the RDCS and to the FHA would be duplicative as between the programs of the two agencies and would overlap and be competitive with the loan and grant programs of other departments and agencies which are not operational in rural areas.

(5) The financial apparatus proposed in the bill is overdesigned. In particular, the proposal under section 501 to grant Federal bank charters, ultimately, to some 300 to 500 multicounty or multijurisdictional planning and development commissions would be assigning banking functions to new and emerging quasi-government organizations which lack business experience and know how, do not have competency in banking, and are lacking in the basic resources needed to bring into being new commercial banking institutions. The creation of

a new branch banking system will be strongly opposed as an encroachment into the private sector commercial lending area.

(6) The proposed interest supplement payments and capital augmentation payments provided for in sections 801, 804, and 805 are the heart of the Rural Development Credit System. Without these subsidies, the RDCS could not fulfill its assigned role as a new source of credit assistance on concessional terms.

The explanatory notes to the bill draw a parallel between the mechanism for funding the RDCS and the FCA; that is the RDCS would fiinance its loan operations using the system perfected by the Farm Credit Administration. Note should be taken that while the method of selling securities in the money markets is the same, the arrangements for financing the borrower are radically different.

The RDCS in its lending operations will embark on an unchartered course as compared to the FCA. The FCA is self-financing. It charges the borrower an interest rate that recovers its cost of money plus the cost of offering the service. The RDCS in contrast will offer concessional loans and recover less from the borrower than it pays for its money. This expectation is clearly stated in section 801 as a policy objective of the bill, and the mechanisms to be used in the implementation of the policy, namely: through the interest supplements and capital augmentation payments, are provided in sections 804 and 805.

The differences between the costs of operating the system (cost of money, cost of administration, and losses, if any) and the return from collections on loans would be covered by appropriated funds advanced by the Treasury Department pursuant to appropriation action by Congress.

This method of financing would provide a high degree of leverage to the Federal funds used for subsidy purposes. But it would remove from the discipline of Federal budgetary controls the greater part of the RDCS's lending operations.

In contrast to this method of financing, the same purpose could be achieved by providing financing through the established budgetary processes and this would be more consistent with the administration's approach to financing of Government programs.

In actual fact the expanded authorities vested in FHA in title I of S. 2223 would permit FHA, through its established and tested delivery and financing system, to carry out virtually all of the functions and purposes of the more elaborate RDCS infrastructure. This is an important point: title I of S. 2223 is a freestanding authority which could be administered within the present structure of USDA, obviating the need for title II.

The administration is moving on several fronts to improve its capability to provide for orderly financing of major action programs funded outside the regular appropriated budget. S. 1015, now pending before Congress, proposes the establishment of the Environmental Financing Agency. The purpose of the EFA would be to establish a marketing mechanism for the purchase of bonds and obligations issued by incorporated areas to finance the installation of water and sewer systems. The EFA would offer its own securities for sale in the central money markets and use these funds for the purchase of municipal bonds. The EFA could provide a market for the municipal bonds handled by the RDCS.

The President in his January budget message stated that he will propose legislation to provide for coordination of financing of Government credit agencies in the capital market. We expect a proposal to the Congress to create a Federal financing bank. The purpose of this new financing bank will be to provide a mechanism to market the securities and obligations of Government agencies which finance their programs through the sale of securities or other instruments in the private capital markets.

The intent behind the FFB is to replace the proliferation of marketing efforts by the several agencies financing their programs outside the budget with a single marketing mechanism. This would bring order and stability into this sector of the market and place the consolidated effort on a new high plane of professionalization.

The administration advocates the early consideration by the Congress of the reorganization and revenue sharing legislative packages. These administration proposals would establish new institutional approaches to Federal program administration. This would lead to the rewrite of existing authorities which are specific purpose and largely autonomous into a new and consolidated system of rural credit services drawing on the best of present authorities, and incorporating new and innovative ideas.

Our goal is a new charter for rural development—the beginning of a new era in the Government's approach to revitalizing rural America.

Senator HUMPHREY. Thank you very much, Mr. Campbell.

Just one or two observations that I would like to make.

But, first I want to call your attention, outside the immediate purview of your testimony, that section f of title 9 of the Agricultural Act of 1970 asks the President to report to the Congress the possible utilization of the Farm Credit Administration agencies out of the Department of Agriculture to fulfill rural financial assistance requirements not filled by other agencies of the executive branch.

Now, that report was due to be submitted to us no later than July 1, 1971, by law, along with the recommendations for any legislation presently appropriate.

Today is the 23d of July. Could you tell us anything as to the reason for the delay of this report, and why we have not received it, and can you give us any estimate as to when we might look forward to receiving it, and can you tell us whether the administration is planning to develop any kind of legislation similar to what we have proposed?

Mr. CAMPBELL. Mr. Chairman, since we have been in the room we have received the President's report to Congress on this point. It is slightly tardy by 22 or 23 days, as you have pointed out, but it is here now.

Mr. HASPRAY. We have a small supply here.

Senator HUMPHREY. It will be made available, then, to the subcommittee. Obviously we can't do much about it yet.

Mr. CAMPBELL. I would like to place it in the record for the subcommittee's use.

Senator HUMPHREY. We thank you very much. We will look it over and possibly later on have some communication with you, Mr. Secretary, in reference to it.

One point that I wanted to make note of here: I recall that you have indicated that there was concern—you mentioned your concern over the overlap among loan programs in your testimony, that this particular proposed legislation might very well duplicate other loan programs, and therefore result in a certain amount of overlap. Of course, this is always a legitimate consideration and it is one of the reasons that we wanted the testimony of men like yourselves—officers of the executive branch. And we have invited the SBA and others, because they are concerned that that can happen. We don't think it ought to happen.

And, therefore, on page 17 of S. 2223 we have put this language:

> The potential borrower must demonstrate that the financial assistance applied for is not available from any other public or private sources.

So we are not trying to pile instrumentality upon agency. The whole purpose here is to fill gaps as we sense them within the credit structure. I want to be very frank about it: it may very well be that our proposed legislation is not sufficiently tight, as we put it, and we want to redefine it and rewrite where necessary; adjust it and make deletions where appropriate.

But, we found a great gap between the existing Farmers Home Administration program and the Farm Credit Administration program. There is a void inbetween them that is not being totally filled.

Secondly, we find that over the years these credit programs that are made available under HUD and HEW and small business and others, while often including directives within the legislation that they are to be made available to rural areas, just plain aren't working in those area.

For example: On housing, as Senator Sparkman said, it is very difficult for a small bank in a small country town to tie up its money in long-term mortgages; they just can't do it and they just don't do it and the lack of credit in rural America for economic development is so obvious that there isn't a witness that wouldn't testify to it.

It just plain isn't there. And we know that unless they go with special measures like the tax-exempt bond, for example, that it has been almost impossible to get economic development funds.

The Economic Development Administration is primarily related toward areas of distress. We are not talking about areas of distress only. We don't think that rural America ought to be in the hospital in order to get help. We believe in preventive medicine, so to speak. I speak for myself. I think that we need a development program in rural America that comes before rural America finds itself in the bottom of the pit. We need to stop predicating legislation on the fact that there is a crisis. We ought to predicate legislation on what we would like to have as a national growth policy in this country. That is what we are talking about: a national balanced growth policy. We have had a great deal of legislation that rescues you after you are practically dead. We feel that it might be better to keep you well.

And that is one of the reasons here that we come forth with this proposed legislation. I want to make it very clear again: it is complicated legislation, and it is intricate, and it undoubtedly needs a good deal of reworking and that is why we wanted to start these hearings rather early.

I have one other observation, and I am not going to take all the time of this committee. I note on page 9 of your statement a conception that you appear to have developed concerning the self-financing borrower-owned rural development bank credit system that would be established under S. 2223.

No concessional credit, or what I would like to call "social" or "soft credit" is involved in our Rural Development Credit System. Our bill has two major provisions. One provision revises and expands the authority of the USDA to provide soft loans for rural development. That is the Farmers Home Administration as revised under S. 2223. It takes the structure of the Farmers Home Administration, expands its function, so to speak, and gives it a greater base of credit, from $100 million to $300 million, and expands its work.

Now, the other provisions we have over here under the chart, under title 2, creates a new Rural Development Credit System. This System makes only hard loans. If there is a concession to be made to the borrower, he cannot go to the Rural Development Bank but to the Department of Agriculture. And I might add that all of those loans, both hard and soft, have to be phased through our multicounty planning and development districts.

So that you are compelled, in a sense, under the structure of this credit to have a multicounty programs; you just don't come in with hit-and-miss little projects, and we think that is rather important. When I spoke to the county officials this past week I put great emphasis on the fact that 40 of the 50 States—more than 40 now, have multicounty planning systems. And all of these loans would have to fit into a multicounty program. Those would be over and above the loans that you can get from a half a dozen other agencies of Government, or even the soft loan from the Farmers Home Administration.

Again I want to say to you, Mr. Campbell, that it may be very well—and I am not trying to be provocative here in the sense of somebody saying that we may very well want to have to rework some of this so that we don't get off the beam—we have tried to take the objectives of the rural development program of the administration in its rural development revenue sharing and accomplish those objectives within the structure of this banking system.

I noted one thing here and it is a legitimate concern: On page 5 of your testimony you commented about the approaches to rural development. You said:

> The Administration, on the other hand, approaches rural development as a more complex undertaking involving people, their needs and aspirations; the social structure in which people work and live.

That is exactly what this proposal does, I want to say quite frankly and firmly, because it is related to the multicounty planning done by the local people, not out of Washington; done by them. And this bank finances, hopefully, what local people have decided that they need within a total framework, not just a one-time job, but part of the total framework of multicounty planning, otherwise they just don't get the loan.

The other point, on the seventh line from the bottom you say: "The establishment of State and local institutions is preferable to creating a nationwide federally-sponsored community bank." May

I say that this system depends upon State and local institutions. You have State and local institutions now called multicounty planning. The truble is: They don't have any muscle; they haven't got any money.

What we are trying to do here is to provide muscle, but not direction. The direction, the plan, the organization is at State and local levels. The possibility of borrowing to make that plan operative is in the banking structure. So we are, in a sense—because we both had to come at this rather quickly—we are both on the same wagelength here. I agree that what we need are State and local instrumentalities that can do something.

Every one of our States have all kinds of rural development programs. The problem is: Many times they don't have any funds. In the bills we are trying to make credit available.

And finally, we tie in the local banks. We met with independent bankers. The greatest source of credit today is from these independent bankers and I for one, am unalterably opposed to moving in on them and taking away their structure. I think they are an invaluable part of rural credit. In fact, that is just about the only private rural credit you can get. These great big banks are not going to come on out to Beadle County, S. Dak., where my family lives. They take money from us; they don't bring any money in. They suck it out like a suction pump through their chain operations. But, my little local bank out there keeps money there and loans the money.

What we are trying to do is to make these local banks an agent of the structure. It will work with the local people; it will work with the local community. That local bank will become the agent, so to speak, of this home banking system. And it will only do what the local community has planned on doing.

So in our exchange here, I just wanted you to know what my thought was as a sponsor, one of the sponsors of this bill. I do not want the Federal Government to tell Waverly, Minn., where I live, in Marysville Township, what we are going to do. But I want to tell you that my little town out there, can't do a darned thing until it can get a hold of some money. And it is not going to get the money out of Chase Manhattan. We may have a friend there, but they haven't been out to see us. I don't know; but I don't think they know we are there. But we have got a lot of things that need to be done out there.

Now, what is working out there is the Waverly State Bank. I am for it. Dan Graham is my friend. And we could use some nice little business out around there. But what we need is some capital. We need some credit. And we don't have a credit structure to provide for it.

Now, what we are trying to do here—and I have looked at this very subjectively—I have lived all of my life with few exceptions in rural America; I was born in a small town, grew up in Huron, S. Dak., went to a city the size of Minneapolis, not a small city to be sure, but one that is essentially related to rural America. And I have lived since 1950 in a community of 600 people, and I am very active in my community life. And I think I know what their needs are and I will tell you, their needs are not being satisfied. And when you get out there and meet with the Marysville town board, you find out and that is what we are trying to do here.

Senator Allen?

Senator **Allen**. Thank you, Mr. Chairman.

Mr. Campbell, in presenting the views of the Department and the administration, are those views identical, or is it possible for the Department to have one view and the administration another? There seems to be some confusion in this area from time to time.

Mr. **Campbell**. I am here presenting the views of the Department of Agriculture. I understand you have invited the other Departments to be here. Whether they will appear or not, I don't know. I don't know what your communications with the other Departments are, but this is the view of the administration.

Senator **Allen**. And also the view of the Department?

Mr. **Campbell**. That is correct.

Senator **Allen**. I was interested in the comment here on rural revenue sharing programs, that they will direct over a billion dollars of Federal funds into the rural areas for management by State and local people. Now, that is not a billion dollars of new money, is it?

Mr. **Campbell**. No, not entirely.

Senator **Allen**. How much new dollar money would that be?

Mr. **Campbell**. Just under $200 million, new money. But the difference is that currently that money is directed completely out of Washington, D.C. And under the proposal, the money would be entirely in the hands of the local people for their own decisions.

Senator **Allen**. Yes, I understand. I was interested in the amount involved.

Also, the reorganization proposal that you speak of with apparent approval, does that plan call for merging the Department of Agriculture into a larger cabinet position?

Mr. **Campbell**. It doesn't plan for the merger of one department into any other department, this is a realignment of seven departments into four new departments, so that it is not a merger of one into another. This is a complete realignment of purpose and function, because, as has already been brought out here, these small communities in these multicounty districts which we have been discussing this morning, have no one place to go to deal with their problems. Under the proposed reorganization, there would be a consolidation along the lines of purpose and intent, in order that the people coming to Washington, wouldn't have to look through a big catalog to find where they would have to go, but they could go to one department in order to answer their problems. I know that the folks from my own small town of Watkinsville, Ga. came to Washington for help. They had to go to five different agencies and departments before they left town. And I am certain that when they got back to Georgia, they had to call their Congressman, or either one of the distinguished U.S. Senators from Georgia, to find out what they had done and what had been accomplished, because there was no one place they could go.

Senator **Allen**. Yes. But under the Reorganization Plan, the Department of Agriculture would still exist as a separate cabinet position, would it not?

Mr. **Campbell**. No, not only the Department of Agriculture, but all seven departments involved would cease to exist as they are presently constituted.

Senator **Allen**. It would then become a division or department of another Cabinet position, is that correct?

Mr. Campbell. Under the Reorganization, the different agencies of the Department would go into four different areas. That part of the Department dedicated to the farmer, his well-being, and his income would be intact in one area. As it is today, there are 85,000 employees. The farmers get blamed for having 85,000 employees working for them. But only 26,000 of these employees actually work for the farmers of America. Yet the farmer carries this load on his back. And this load would be shucked off. So would several billion dollars that the farmer is blamed for. Time and time again, we read editorials blaming the entire budget of the Department of Agriculture on the farmer. And he shouldn't bear this blame. They say he is getting $10 billion. Actually, only about 60 percent of that budget goes to the farmer. And under the Reorganization, those areas directly related to the farmer and his welfare will all be in one place together. The Department would really be in each of the four new departments, not in one of the four as you suggest.

Senator Allen. Then the Department of Agriculture does endorse the thought of the Department ceasing to be a separate Cabinet position?

Mr. Campbell. We endorse the reorganization for a better Government.

Senator Allen. Yes, as outlined in my question.

Mr. Campbell. That is correct.

Senator Allen. I gather that the administration sees little in this bill, S. 2223, to recommend it.

Mr. Campbell. We do not question the intent and the objectives of the authors of the bill, we just have a different view and approach to the accomplishment of doing something about rural America, as I have testified.

Senator Allen. Do you think that the credit needs of rural America are adequately met under the present system?

Mr. Campbell. We think that Congress has through the years provided enough agencies. If they are restructured and reorganized, as the President has proposed, put into revenue sharing, and then the funds passed back to the local people making their decisions, rural America will have a chance to adequately develop.

I must point out, and as the chairman has pointed out, nothing will occur unless the local people want to do something. He has visited communities in my State. He has noted the leadership role the Mayor of Alma, one of our little towns that are so active in rural development. But we feel that we do not have an adequate way to efficiently serve these small communities at the present time. That is the reason the President came forth with this proposal on the reorganization and revenue sharing.

Senator Allen. Yes.

I note here on page 6 of your testimony, the bottom of the page there, subsection 1, you point out that in your judgment or in the judgment of the Department, the present level of commitment of $100 million is adequate for the Farmers Home Administration grants. You are of that opinion, that that should not be raised?

Mr. Campbell. That is correct, under the present program. We do not approve of the other $200 million. That would be provided under the bill. This $200 million would go with the broadened powers of the bill. We do not approve of the added amounts for the Farmers Home Administration under the present authorities. We think that the $100 million is adequate for the current purposes.

Senator ALLEN. Are you knowledgeable as to the amount of backlog of applications that the Farmers Home has?

Mr. CAMPBELL. Yes, I am. We have about 30,000 communities that need water and sewer systems. The Farmers Home Administration, as has already been said, has made a study of the needs and what we have to do. We have accelerated the program under the present authority. In my testimony, I said the number of loans and grants for water and sewer systems has risen from 1,300, up to an estimated 1,700 from fiscal year 1969 to fiscal year 1972. But, we do have a backlog.

Senator ALLEN. What is the amount?

Mr. CAMPBELL. We came to Congress with a legislative proposal to change the method of financing water and sewer loans, because these were being financed out of the Federal Treasury. As a result, as all of us know, we have a continual problem of keeping the Federal budget as little in the red as possible. We always have had and we can anticipate in the future, a problem of how much money we can get directly out of the Treasury to loan for water and sewers. So we came to Congress and asked for legislation to permit FHA to take tax exempt bonds issued by municipalities and sell these in the money market with the interest to be taxable to the purchaser. This satisfies Treasury Department policy against the sale of tax exempts guaranteed by FHA. Now, we have a much better situation without having to be concerned with direct Treasury loans, but can guarantee loans instead.

Senator ALLEN. What is the amount of your backlog, Mr. Campbell?

Mr. HASPRAY. We carried over $500 million in applications for loans. The original budget was $189 million, but the President increased that by $111 million for a total loan program in fiscal 1972 of $300 million.

Senator ALLEN. Does that tally with this statement on page 6: "At the present level of commitment, the $100 million level is adequate for program purposes?"

Mr. CAMPBELL. The $100 million is grant money, Senator, whereas we are referring to loans. All of the communities do not get grant money. The grant money is only available where it is felt that the communities just absolutely cannot make a project go on loans. The $100 million does not relate to the figures that Mr. Joe Haspray just gave you.

Mr. HASPRAY. I was using the loans. We are now talking about the grant money.

Senator ALLEN. That is what I was asking, as to what the backlog is of applications.

Mr. HASPRAY. The backlog of grants applications carried over is $100 million. And we will have $40 million under the new budget.

Senator ALLEN. You will have how much?

Mr. HASPRAY. $40 million.

Senator ALLEN. $40 million in grants?

Mr. HASPRAY. Yes.

Senator ALLEN. And this bill proposed $300 million?

Mr. Campbell. This bill proposed $300 million for a lot of other purposes besides grants for water and sewer, Senator. I don't think you can relate the two.

Senator Allen. Some have been withheld this year by the Administration, has it not, some authorization?

Mr. Campbell. That is correct. The money was withheld across the entire Federal Government in an effort to keep down the red ink of the Federal Government to the lowest possible level, not only here, but throughout all departments of the Government. The Federal money was withheld from what the Congress had authorized.

Senator Allen. I notice on page 10, you say:

> Title I of S. 2223, would permit the FHA, through its established and tested delivery and financing system, to carry out virtually all of the functions and purposes of the more elaborate RDCS infrastructure.

Now, would the Administration favor placing these powers provided in Title I in Farmers Home, rather than setting up a new agency?

Mr. Campbell. We feel that Congress through the years has established everything that is necessary, provided there is a reorganization of all the agencies and a restructuring for revenue sharing. It is possible to accomplish the objectives of this bill without broadening the powers of the FHA in this area. Existing authorities of the Small Business Administration, EDA, HUD, and the other departments that have pertinant programs the Congress has given them can do the job.

Senator Allen. You have all these departments and agencies. But is that getting sufficient funds out to rural America to handle the problems and needs of rural America? This is important.

Mr. Campbell. We feel that these agencies already created by Congress, can meet the needs of rural America, if the reorganization and revenue sharing is put forward. It would take an expansion of some of their activities and an enlargement of what they are doing.

Senator Allen. But you are not proposing enlargement along that line, are you?

Mr. Campbell. We have proposed a reorganization of Government for revenue sharing, and when this is accomplished, working with communities we will then go forward with ways to meet their needs as we find them at that time.

Senator Allen. I have no further questions. Thank you very much.

Senator Humphrey. Senator Bellmon.

Senator Bellmon. Thank you, Mr. Chairman.

Secretary Campbell, on page 5 of your statement you call attention to the Administration's approach to rural development as being rather complex, and including such things as the social structure in which people work and live and so forth. Would you care to enlarge upon that a little to give us a better insight as to how the Administration approaches the problem of rural development?

Mr. Campbell. We feel the free enterprise capitalistic system finds its answers to the problems that we have, and that this is the best system. But, that the Government does have to be involved to a minimum degree. First, there must be activity at the local level by the people of a community. The State government or the State capitol can go down and make something happen in the community, but first you have to have the activity there to work with. Most states now have multicounty setups in order to work for the betterment of the region covered by a multi-county setup We believe that we can put a delivery system into their hands for their action and their promotion. We can do it best by moving the Government back to the people through reorganization and revenue-sharing. We could activate and stimulate what these people do better this way than by any other system that we have heard of or had recommended to us thus far. We are concerned about the farm income, first, as I have already said. Then, we are concerned about the training of people and education for industrial jobs. We are concerned about transportation.

There are many factors that go into whether or not an individual will come into a rural community. It isn't just a matter of credit, it is a matter of transportation and water as much as anything else. Without transportation and without water, an industry just can't come into an area. We must have the active participation of the people locally, and then, the State and the Federal Government, and we must be able to make sense out of what the State is doing and what the Federal Government is doing. Unfortunately through the years, the Federal Government has become so complex that, as someone has said, you have to get through a catalog bigger than Sears Roebuck to try to find out where to go. So we feel the job has to be made easier for the local people to find out what is available and to take advantage of what is available. We believe that with the reorganization and expansion of the activities that Congress has already created, that we can accomplish this.

Senator BELLMON. Mr. Campbell, in your statement you mentioned the creation of jobs as one of the main approaches that the Department would emphasize. And my question is this: If you were the leader of a rural community—and I, too, am from a small town and live on a farm—and if there was a local entrepreneur who had a good product or a good idea that he wanted to develop, and perhaps a product that he wanted to produce and market, where would you go, now, to get the capital that the small local industry might require?

Mr. CAMPBELL. The Small Business Administration programs are available for this. And if you happen to be in what is called a depressed area, EDA programs are available, as well as the private financial institutions.

Now, in dealing——

Senator BELLMON. Just a minute. Have you ever tried to borrow money from a private financial institution to do something in a small town?

Mr. CAMPBELL. I have tried to as a farmer, Senator, and I got thrown out in the street. And then I went over to PCA.

Senator BELLMON. I am talking about an industry. PCA or FHA won't loan for small industries.

Mr. CAMPBELL. That is correct, at the present time.

Senator BELLMON. Where do these small businesses go?

Mr. CAMPBELL. The Small Business Administration.

Senator BELLMON. They require a participation banker to put up 25 percent of the money.

Mr. CAMPBELL. Last year they loaned almost $1 billion under this program, Senator, that is a substantial amount of money.

Senator BELLMON. And they loaned it in communities where you have a local bank big enough to put up 25 percent of the capital. And many of our small banks have a $25,000 loan limit, and even smaller than that. How would a bank loan like that help the local industry get an SBA loan? What I am trying to find out is, I think there is a real credit gap in rural America today, not only for agriculture, for agricultural enterprises, but particularly for any industry that wants to locate any small business. I can tell you what happens to small businesses. I remember that we wanted to put up a small plant in a rural area, and we went to a city bank to get a loan. And they told us, build your plant in Tulsa and you will get the loan. But if we wanted to build the plant in a rural area where people are partially employed or on farms, that aren't large enough to keep them working 8 hours a day, all year round, they weren't interested.

Mr. CAMPBELL. I understand what you are saying. I hate to give you this illustration, but I would like to give you one that will illustrate the operation of the free enterprise capital system. I can take you to a place in Georgia, between Atlanta and Chattanooga, up in north Georgia, where an effort was made to create a meatpacking plant. Just because the money was available through one of the governmental agencies to do so, they went up there and built this meatpacking plant. In 4 years time it had four owners, and then it closed its doors. And it has been sitting there for the last 6 or 8 years unoccupied because the free enterprise capital system already knew that they didn't need a plant in that particular place. This isn't a matter of being unsympathetic, Senator. But I want to say that the Government can't find all of these answers, it is impossible for them to do it. We can't be that smart. We operate under what we call the free enterprise capitalistic system. Down in south Georgia where you were, Mr. Chairman, we had one of these slick operators come in. He told the local community, you build us a plant and we will start a textile manufacturing outfit. They did this in two or three of the small towns right where you were as chairman of this committee in south Georgia. Two or three communities put up plants. The fellow stayed down there and operated for 2 or 3 years. But, because he wasn't responsible for the capital, he left. For the last 2 or 3 months he didn't pay his labor, and other bills and he probably owed $200,000 or $300,000 when he left. I would have to assume he pocketed this money.

What I say is, that we can't solve all of the problems. The private capitalistic system works terrifically on everything that comes about. I can't tell you how to get an industry in every rural area throughout the United States. I don't think it is possible or feasible. But I do know that the Small Business Administration and the EDA are doing a substantial job in this respect.

Senator BELLMON. I agree, they help. And certainly the EDA is an important arm of Government, and the results of these programs are good. But to me there still exists a very real gap. I think probably the difference of opinion here may be whether or not the USDA recognizes the creation of rural jobs as a part of its responsibility. Maybe it doesn't. But the fact is that we have a lot of people in agriculture who are underemployed. And if they could find a job close to the small farm they operate, they could continue operating that farm and not be forced into the city. That is what we are after.

Mr. CAMPBELL. We need to do something about the tractors and the harvesting equipment and all that have replaced the workers. I agree. We have a deep sympathy and concern with this.

Senator BELLMON. But the point is, is anything being done about it by the USDA?

Mr. CAMPBELL. We feel the administration has taken a proposal to Congress that will help because under the revenue-sharing the local communities can take this money, and if they so desire, they can create industrial development corporations with the money if they so desire, and get into the financial field. This will be completely within the bounds of each local community, if they want to use the money for this purpose.

Senator BELLMON. Mr. Secretary, to do this, they would have to shut down their county agent and close the ASCS office——

Mr. CAMPBELL. No; that isn't so.

Senator BELLMON. This is the same money you are talking about?

Mr. CAMPBELL. No; it isn't, because under the President's proposal, the county agent and the Extension Service is held safe. Under the provisions of this bill, it states plainly that there will be no reduction whatsoever in the level of operation of the Extension Service. They will continue to be tied to the land-grant college, which is very important because in many States you have four, five, or six colleges, and if it was not stated that it would be tied to the land-grant college, then it could be divided out to several of the colleges. But the provisions of the present setup do protect the Extension Service.

Senator BELLMON. But you testified just a moment ago that of the billion dollars there is—how much new money?

Mr. CAMPBELL. Slightly less than $200 million.

Senator BELLMON. The other $800, then, would already be committed to ongoing programs. So we only have——

Mr. CAMPBELL. Yes; but these ongoing programs to which you refer are now directed out of Washington, D.C. The local communities could take the money and devise their own program.

Senator BELLMON. And wipe out the existing one if they want to?

Mr. CAMPBELL. Yes; they can handle it any way they like, so long as it is used for the purposes and the functions eligible under revenue sharing.

Senator BELLMON. Do you have an opinion as to how much this money would actually be freed for, let's say, the purpose of industrial development in rural areas?

Mr. CAMPBELL. I would have to submit that to you. I couldn't give it to you.

Senator BELLMON. I don't think anybody can give an accurate answer. But I doubt if there would be any of it available for the kind of effort we are talking about.

It occurs to me—and I approve of what the administration is trying to do in reorganization and revenue sharing—but it seems to me that in spite of this, that the administration hasn't recognized that there is a need here for some initiative, that the reason we have had such a mass exodus of people to the cities, where most of them don't want to live, is because there aren't any jobs or opportunities in small towns in the rural parts of the country. And until we make it possible for the people who might like to build plants there to do so, and for the people who might like to live there to have the jobs and the community services that they need, those people are going to come to the city. And it seems to me that the Federal Government is well justified in putting forth some subsidy to make it possible for meatpacking plants to operate in areas and provide jobs for people that may at one time have been in the meat-producing business, and now can become meat processors. And this is the purpose of the legislation. I am not coauthor at this point. I think there are many things to be done to it to improve it. But I think the concept of getting some industrial-type credit into rural America is one that is very drastically needed. And I think the USDA has the responsibility to help see that it is done.

I want to make one other point, Mr. Chairman, if I may. I undertook to talk to Senator Sparkman a moment ago about the SBA loans, the way they are handled in the rural areas. But the reason this has come to my attention is that during the recent credit crisis it came out in our part of the country that there were many areas where small banks were way underloaned, they had a large amount of money in the banks that they couldn't loan locally, for the reason that many of the loan applications they had were too big for the limits that the banking system imposed on the rural banks. For instance, a banks may have a $20,000 limit, and a farmer may come in and he needs to borrow $50,000, and the bank can't make the loan. And in many instances, the larger banks aren't interested in loans of that kind. And so the farmer is turned down. And the local bank then is forced to take that money and put it in municipal bonds, or perhaps send it on to the city to be reinvested there. And yet, in my opinion, the private bank who handles a farmer's bank account may be in a better position than anyone else to know about the merit of the loan. In many cases, they would like to make the loan.

Now, then, does the Department have any thought of trying to make it possible for a cooperative program between local banks and some of the USDA lending agencies and I am particularly thinking of the FHA and PCA—to be determined so that local credit can be blended into this?

Mr. CAMPBELL. Senator, that has already been done. Secretary Hardin announced 3 weeks or a month ago, that henceforth, Farmers Home Administration and local banks could work together for a joint loan. So this is already in effect.

Senator BELLMON. Can you tell me how that program operates, or do you happen to know?

Mr. CAMPBELL. It has just been announced. I don't know if the first loan has been worked out between FHA and the banks, but the information is available.

Senator BELLMON. Now, the FHA has ordinarily been oriented toward subsistence agriculture. They haven't been able to meet the needs, we will say, of a cattle feeder who may need a couple of hundred thousand dollars, but his local bank won't let him have but $20,000. Is there any way——

Mr. CAMPBELL. We have asked that these limits be raised on farm-ownership loans for Farmers Home Administration and Congress can take action to raise this to $100,000. We do have a request to raise the operation loans from $35,000 to $50,000, which is currently before Congress. I understand what you are saying, that the Farmers Home

Administration policies are to make loans only when the farmers cannot get the credit somewhere else. But, now, they can go to a bank and make loans which will increase the amount that is carried in the local community by the bank. FHA has developed a new arrangement with private lenders whereby the private lender and FHA make joint loans to farmers. This brings the private sector into the Government loan program and the Government in turn cooperates with the private lender in helping to provide credit to farmers in the community. This is especially helpful to the local bank that has limitations on the size of the loans it can make.

I made a 2-day tour of the Texas drought area, and stopped 10 times in 10 different communities. And bankers were in the audience. The Senator might be interested to know that the bankers showed a great deal of interest in this, and were favorable to it.

Senator BELLMON. It sounds to me like this might be an approach, but I will not pursue it further now.

One very quick question. Do you know how many offices the USDA operates in the average rural county?

Mr. CAMPBELL. I think there are about 20,000 offices of the USDA in the 3,000 counties. That includes every type office in the USDA, many of which are not dealing with farmers. There is the Food and Nutrition Service, with $3 billion worth of food programs going on. We have the meat and poultry inspection, and we have the Forest Service. With about 20,000 offices in the USDA scattered throughout the United States, that would be an average of six and one-half per county. Many of these are not dealing with farmers.

Senator BELLMON. Would it be safe to say that there is an average of five per county dealing with agriculture?

Mr. CAMPBELL. Under the USDA—I would say four to five.

Senator BELLMON. In most counties there is a Farmers Home Administration Office, a Soil Conservation Service Office, an ASCS Office——

Mr. CAMPBELL. Some of these programs have two or three counties to an office. The Farmers Home usually does.

Senator BELLMON. Most of these offices are concerned with one single aspect of agriculture. The Farmers Home Administration loans money. The Soil Conservation Service builds terraces, and ponds, and that sort of thing. But why has the USDA never coordinated its efforts toward the total concept of rural development?

Mr. CAMPBELL. The USDA, I think, for the last 8 or 10 years has been talking a lot about rural development. I heard it before I came to Washington and I have heard a lot about it since. There has been much conversation and much effort. It is a really tough job to get going on. That is why this committee is having these hearings. It is something that can't be done easily.

Senator BELLMON. I take that as an admission that something needs to be done.

Mr. CAMPBELL. That is correct.

Senator HUMPHREY. Senator Aiken?

Senator AIKEN. Mr. Chairman, I am not a member of your subcommittee. I am a cosponsor of this bill, although I don't expect the bill that comes out of the committee to resemble too closely the bill which was introduced. I do think that it is high time the people of this country were reminded of the fact that agriculture is not a minor industry in this country, that we are not dependent for our economy on a couple of hundred international and national giant corporations that are highly recommended for access to the Federal Treasury when they need it. But there are people selling the idea that agriculture is now a minor industry, that we are dependent on these few big corporations, and that has to be counteracted. If a full-fledged controversey can remind the people of this country that agriculture is still important—and it is far and away the most important industry that we have in this country, or in the world, as far as that goes—I think that these hearings and having jurisdiction over the bill would be worthwhile.

I have no idea when the bill will finally be reported; I think there will be one reported, maybe not this year, but next year and we will have a great many changes in it. But it is necessary that we do something to dispel this idea that agriculture has degenerated into a minor industry, and we might just as well depend upon our food than on other countries, and so on and so forth. That is why I am glad that the bill is introduced and that hearings are being held.

And, now, I have a committee meeting of my own on the fourth floor relating to settling the troubles of the rest of the world, forgetting the United States for the time being. So I think I had better go there.

Mr. CAMPBELL. May I respond very briefly.

I think the authors of this bill and the administration have the same objective. I want to state firmly, we question no one's motives whatsoever.

Senator AIKEN. And the program is going to have lots and lots of trouble with revenue sharing. I think there has got to be revenue sharing of some kind. But you are going to have even more trouble with the reorganization plan. And what is the use of putting all of our effort into something that isn't going to happen anyway? I believe in reorganization of the Government, but I believe in doing it step by step. I don't want all eight courses of the banquet to be dumped into a kettle and stirred up, and then to eat out of that kettle because there is something in there that makes one of the guests at that banquet sick to his stomach. And that is about what is happening when you recommend reorganizing every litle bit of Government all in one batch.

Mr. CAMPBELL. Senator, may I say that the corn blight last year almost made everybody aware that agriculture is still important.

Senator AIKEN. Yes. I know there are too many people who believe our welfare depends on too few people.

Senator HUMPHREY. Thank you, Senator Aiken. Your words of wisdom are always very welcome.

Mr. Secretary, I want to make one or two observations. First, I want to say to you in a sort of cooperation, as we have said here, we are taking a hard look at the objectives of the President to have special revenue sharing for rural development. We do not argue with those objectives. I think that those are objectives that reasonable people, regardless of region, partisan or philosophical differences, can agree upon. And we ought to start with those objectives. That is exactly what we tried to do in this legislation.

Secondly, as I said before, I am sure that the bill that we have presented will have many adjustments. This is why we need witnesses. We want witnesses to examine this bill in detail. I have asked, for example, the independent bankers to take a good look at this bill. I am very sensitive to the work of the fine group of financial institutions. I don't know what we would do without them in rural America. And we want nothing that is going to impede their effort or make it more difficult for them to survive and to profit, because they really are vital.

So we know we are going to do something. As Senator Aiken has said, we are going to have to make a very careful analysis of what we have before us, and then hopefully improve it. And I am sure that there are many features of Senator Pearson's bill that would require the same kind of refinement. We hope that we can blend these measures together.

Now, having said that, my appeal to the administration is this, let's get on the same wicket here, and let's try to come up with something that will help the people. This is a bipartisan bill, this isn't a Democratic bill, it isn't a Republican bill. As a matter of fact, when a fellow is broke, it doesn't make any difference whether he has got a Republican banker or a Democratic banker, he is not going to get a loan. And when you go around rural America, you will find that there are Democratic areas that are in trouble and there are Republican areas that are in trouble. So we can knock off this partisan nonsense. As I said, I happen to support general revenue sharing. I am one of those on the Democratic side of the aisle that supports it. Some of us don't. And I don't care whose name is on it—as a matter of fact, if they could find some new names or titles, I could go for it. I think we need it.

But I am going to be frank with you. I think Senator Aiken told you something this morning that ought to go back to the main office. There isn't going to be any general reorganization. You just mark that down, that isn't going to happen. Because I can think of hardly a Member that I have talked to that is about ready to abolish the Department of Agriculture. I do think the Department of Agriculture needs to get with it, needs to get up to date. It is old fashioned. It hasn't been reorganized, it hasn't done what Senator Bellmon has asked to have done. And it isn't your fault. I am not blaming you. This has been characteristic through the times, 30 years, through Republican and Democratic administrations. But the Department of Agriculture at least can become a Department of Agriculture and Rural Development, because that farmer out there can't survive alone, and the community can't survive alone. They are one and inseparable.

I happen to believe that the first job is to get good farm income. And we are a long ways from it. Both parties have been rather negligent in that responsibility.

What we need to do is to start to reorganize the department within the department. I am going to fight to the end to prevent the abolition of the Department of Agriculture. We don't have many spokesmen in this country for agriculture. I guarantee if you were in a hearing on some other matters, this room would be filled with television cameras. But the American people don't hear about the plight of this man out in rural America, that farm family, that little country store, that small businessman. He is the forgotten man, much more forgotten than some other people in this country that think they are forgotten. And we are going to get them reminded. That is my job. I am going to see that the American people are reminded about what is going on in rural America because unless they do, we aren't going to have any America. These cities are going to get worse, and rural America is going to be in more trouble.

I come to you, first, with an appeal, let's take a look at this legislation, examine it critically. And we want your honest evaluations, because you have got top-grade people in the Department. My appeal to them is, look at it, because something is going to come out, whether you like it or not, administration or no administration, we are going to report some kind of legislation. So I suggest we get on the same band wagon and try to work out something that will be satisfactory.

Now, the fact is—and I have been on the other side of the aisle down on Main Street—the simple truth is, whether you have got a Democrat in charge of that Department or a Republican in charge of this Government, the fact is that rural America is the last area to get anything that the Government has to offer when it comes to development. In the Housing and Urban Development Agency, primarily the big money goes to the guy that can holler the loudest and seems to have the most grievous indictment against the Government. With all due respect to a great newspaper like the New York Times, it will tell us every day what is going on in New York, but it doesn't tell me very much about what is going on in Litchfield, Minn. I use my own State as an example and I think I have a right to have those people heard. And unless the Department of Agriculture is their champion—and I mean a real champion, not just for peanuts and wheat and soybeans—we are not going to get anything. And that is what we are up against.

I notice that you said that under the special revenue sharing, you could do just about everything we are proposing in this bill. I respectfully say, Mr. Secretary, that is not true. You could do a good deal if you would abolish everything you are now doing. But no man in his right mind thinks that you are going to abolish the ACP.

Mr. CAMPBELL. Reorganization doesn't call for that.

Senator HUMPHREY. I mean, if you free up all that money—you say that you can take that money and put it into industrial development. You know that wasn't going to happen.

Mr. CAMPBELL. Revenue sharing does not take the ASCS money and put it in there.

The CHAIRMAN. Nor the ASCP money the ACP money. The only money that is locked up for sure is the Extension Service. And how much of that is there, what is the amount, out of the billion dollars?

Mr. HASPRAY. $139 million.

Senator HUMPHREY. $139 million. The rest of it you say is free money. But it isn't really free.

Mr. CAMPBELL. But not ASCS.

Senator HUMPHREY. I mean ACP, the soil payments. You are not going to put that money up for grabs.

Mr. CAMPBELL. It would be up to the local community to decide, Mr. Chairman, as to whether or not they wanted to do that.

Senator HUMPHREY. Do you really think that the Governor of a State or the State legislature is going to free up that money? We can write fiction about it, but in real life do you think this is going to happen?

How many agencies do you abolish under this revenue sharing?

Mr. CAMPBELL. There are no agencies abolished under this, Mr. Chairman, none whatsoever. There are no agencies abolished under the revenue sharing.

Senator HUMPHREY. That is correct. So you are going to free up very little money for what we call rural development.

The other thing is, you said that there was that $200 million additional money.

Mr. CAMPBELL. Just under.

Senator HUMPHREY. My calculation, however, shows that as related to the 1972 appropriations there is less than $50 million of new money.

Mr. CAMPBELL. I don't know where you got the figure——

Senator HUMPHREY. I think if you take the appropriations as compared to what the budget request was for fiscal 1971, that the amount of new money that is in the special rural revenue sharing is less than $50 million.

And we are talking about special revenue sharing.

Mr. HASPRAY. If you add to the $79 million new money in the President's budget the $100 million that the President tied into community development, and you get up to about $179 million. It is budgeted, but it is not there.

Senator HUMPHREY. I would like to talk about what is there. I have been around Government a long time, and we are long on promises. So I think we have to face up with what we are dealing with here.

Now, I do think we need reorganization in the Department. And I think that is what many of you here are concerned about, and we are ready to cooperate. I think there needs to be a great deal of emphasis upon rural development, and any way we can tie together these agencies—and they are good agencies—and make them work a little bit better, I think we ought to do it.

I have some questions here, some of which I am sure you will not be able to respond to, Mr. Secretary, because these take a little more time, and you wern't given any advance notice of them. They are not trick questions, but just to get information for us. And may I suggest that we will send you a copy of the questions to the Secretary's office, and we would appreciate your responding to them.

Mr. CAMPBELL. We will be glad to respond to any questions you send down.

Senator HUMPHREY. The first one—and there are one or two you can answer very quickly—in title IX of the Agricultural Act, we have this language, that Congress commits itself to a sound balance as between rural and urban America, and the Congress considers that balance so essential to peace, prosperity, and the welfare of all our citizens, that the highest priority must be given to the rehabilitation and development of rural areas. Do you consider that binding on your decisions and actions?

Mr. CAMPBELL. We are very happy that Congress took that action.

Senator HUMPHREY. But do you consider it binding, that the highest priorities must be placed.

Mr. CAMPBELL. Yes: we do. We accept that.

Senator HUMPHREY. I wish that you would feel free to amend and extend your statement for the printed record, because I believe that we need to understand what we mean by the highest priorities.

(The supplemental statement is as follows:)

The Nixon Administration has been committed to rural development and to bringing about a better balanced population growth since its very outset. In his first State-of-the-Union Message the President stated:

"We must create a new rural environment which will not only stem the migration to urban centers but reverse it. If we seize our growth as a challenge, we can make the 1970s an historic period when by conscious choice we transformed our land into what we want it to become."

He also went on to say:

"I propose that before these problems become insoluble, the Nation develop a national growth policy. Our purpose will be to find those means by which Federal, State and local governments can influence the course of urban settlement and growth so as positively to affect the quality of American life."

These words have been followed up by action. Congress should act favorably soon on the legislative porposals. Here are some concrete examples of the high priority the Administration has placed on rural development.

(1) The President's reorganization proposal will for the first time consolidate in one spot—the new Department of Community Development—sufficient know-how, resources, and authorities to accomplish the rural development goals sought but not attained previously.

(2) The President has proposed a major new program—revenue sharing—of which rural revenue sharing—a billion dollar plus program—is specifically aimed at revitalizing rural America.

(3) The President's proposed Family Assistance Program is a major step forward to wipe out poverty. Rural America will be particularly benefitted.

(4) Funding of USDA's principal rural development programs in FY 1972 is more than four times the FY 1969 level when this Administration took office ($2,668,000,000 vs. $575,000,000).

The President's program will achieve the rural revitalization goals that the Congress committed itself to in Title IX.

Senator HUMPHREY. Can you give us your best estimate of the probable cost of construction of the necessary rural and community facilities that would be necessary to reach the goals expressed in title IX? We would like that.

Mr. CAMPBELL. We will provide that, too.

Senator HUMPHREY. Can you give us a general idea of the prospective asset value of the new industrial plants and other construction by private economic enterprise that would be required to reach the President's rural community development goals?

These are the type of questions that we want to get some indepth analysis on from your Economic Research Division.

By the way, I think your Economic Research Service needs to have more funds to do its job. We consider it an asset to the Congress, and I am sure to the country.

We would like also to have a list of the loan and grant programs administered by the Department for rural development, for private economic enterprises, and the rural residents. We need to get a full listing of that.

And we would like to get a general idea of the amount in dollars of each of your Department's loan and grant programs that was expanded or committed in some recent fiscal year. It is one thing as to what is authorized and what is appropriated, but what was committed, what was expended? And I will submit other questions in writing on behalf of the committee.

Mr. Campbell. All right, sir.
(The information is as follows:)

Question 1. Last year Congress passed and the President signed legislation putting the rural development component of a national balanced growth policy at the highest priority level. The relevant language of Title IX of the Agricultural Act of 1970 reads (and I quote): "The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas."

Do you consider Title IX, and the provision quoted above, to be binding on the actions and decisions of the Executive Branch?

Answer. The response to this question has been placed as an Extension to the Record.

Question 2. What is your interpretation of the passage I have just quoted from Title IX, Section 901(a)? Please feel free to amend and extend your statement for the printed record; but we would appreciate having your expression at this time.

Answer. The response to this question has been placed as an Extension to the Record.

Question 3. Please give us your best estimate of the probable cost of construction of the necessary rural community facilities that will be necessary to reach the goals expressed by Title IX. We would like your expression now, subject of course to whatever further refinement and extension you would like to make for the printed record of this hearing.

Answer. We do not have an estimate of the probable cost of construction of the necessary rural community facilities that will be necessary to meet the goals expressed by Title IX.

Question 4. Can you give us a general idea of the prospective asset value of new industrial plants and other construction by private economic enterprise would be required to reach the President's rural community development goals? Please feel free to amend and extend your reply for the printed record.

Answer. In keeping with the President's emphasis on returning decisionmaking powers to State and local governments, no specific rural community development goals have been set at the national level. This responsibility will rest with those nearer the point of implementation. Still, a central theme of these development efforts will be to provide ample employment opportunities for all those who now live in rural areas. If we assume, for example, development goals of (1) entirely stopping net outmigration from nonmetropolitan areas and (2) closing by half the gap between labor force participation rates of metropolitan and nonmetropolitan populations during the coming decade, then about 3 million additional jobs would be required in nonmetro areas by 1980. The asset value of additions of new plants and remodeling of existing plants and other construction by private enterprise to accompany this acceleration measured in 1970 dollars could approximate $125 billion during the 1970 decade, or about $12.5 billion per year.

Question 5. One source of future economic growth in rural America is, of course, the amount of funds from current income being generated in rural America that is available for savings and investment. Can you give us a general idea of what the total amount of such funds might be for a recent year?

Answer. Given the paucity of information on capital flows that is available on a rural-urban break, this question and the two that follow can only be roughly estimated. For the purpose of making such an estimate, we have assumed that all components of the national income accounts are distributed between metropolitan and nonmetropolitan areas in the same proportion as personal income (76:24). On this basis, personal savings in nonmetro areas would have equaled $13.0 billion in 1970.

To estimate the amount of retained business earnings in nonmetro areas available for investment, one must make further assumptions about the net movement of goods and services between metro and nonmetro areas. On the basis of a "location coefficient analysis" of major product components (e.g. agriculture, construction, durable and nondurable manufacturing and services), it was estimated that 17 percent of the nonmetro product was "exported" to metro areas while 10 percent of the much larger metro product was "exported" to nonmetro areas. Further, assuming that all components of the product accounts are distributed between metro and nonmetro areas on the same 76:24 basis used above, one is led to the conclusion that nonmetro areas probably experienced a net "trade" deficit with metro areas. The magnitude of deficit was roughly estimated at $3.5 billion for 1970. In other words, the analysis suggests that this exchange results in a net flow of goods and services into nonmetro areas which must in turn result in a flow of capital from nonmetro to metro areas to pay for the deficit. Retained business earnings, which were implied deductively from the above assumptions and the gross national income accounting identity, would seem to be small if not negative. The estimate for 1970 using national income accounting data was $2.4 billion.

Question 6. On the basis of your general knowledge and whatever data you may have, what percentage of the savings and investment funds generated in rural America stays there for reinvestment?

Answer. Applying the same assumptions used in answering the preceding question, nonmetropolitan investment was an estimated $21.5 billion in 1970. Given nonmetro personal savings of about $13 billion and little if any retained earnings, something less than half of the total investment in private plant, equipment, and other construction in nonmetropolitan America is judged to have its origin in capital accumulated there. These transfers from metropolitan areas by both the public and private sectors will likely continue to represent an important source of financing for job creation in nonmetropolitan areas during the coming decade.

Though some portion of rural savings undoubtedly flow into metropolitan investments, we have been unable to ascertain the size of this flow from available information.

The attached tables provide a general indication of the amount of savings held in nonmetro banks and savings and loan institutions at given points in time.

DEMAND AND TIME DEPOSITS IN 2 GROUPS OF RURAL BANKS, DEC. 31, 1965-70

[In million of dollars]

Dec. 31	Demand deposits: Member banks with head offices in places under 15,000 population	Demand deposits: Selected agricultural counties	Time deposits: Member banks with head offices in places under 15,000 population	Time deposits: Selected agricultural counties
1965	15,170	4,327	15,257	4,327
1966	15,389	4,435	16,986	4,886
1967	16,310	4,727	19,333	5,546
1968	17,633	5,064	21,786	6,305
1969	18,446	5,242	23,594	6,998
1970	20,408	5,426	27,874	7,830

Source: Computed from FDIC data.

SAVINGS CAPITAL OF SAVINGS AND LOAN ASSOCIATIONS, 1966-68

[In millions of dollars]

Year	Total	SMSA's: Above 250,000 population	SMSA's: Below 250,000 population	Outside SMSA's
1966	114,163	81,413	10,650	22,100
1967	124,586	90,035	11,552	22,999
1968	131,661	94,869	12,197	24,595

Source: Computed from Federal Home Loan Bank Board data published in Statistical Abstract.

Question 7. Can you give us some idea of the total amount of savings and investment funds generated in nonrural areas that flows into rural investments each year? Please feel free to extend and amend your statement for the printed record.

Answer. Funds gen[illegible] in metropolitan areas that flow into rural investments each year are [illegible]ated with the excess of imports to rural America over exports to metr[illegible] places. As stated above, flows of this kind, both public and private, co[illegible]e an important source of funds for rural investment in plant and facilities, but we lack an adequate basis for estimating the amounts involved with any degree of precision. It would appear that roughly a fourth of the personal savings and retained business earnings in metropolitan areas finds its way into rural investments.

Thus, a sizable amount of savings and investment funds generated in nonrural areas is accounted for by net flows into rural investments each year. Gross flows in each direction are probably large, yet the net would seem to be from metropolitan to rural. Part of this net is accounted for by cash flows and part by acquired ownership by metropolitan residents of rural property, plant and equipment. Ownership may be in terms of claims against assets through loans by central city financial institutions to rural firms and households. For example, assets of the farming sector rose to $311 billion in 1970 from $203 billion in 1960. Of this gain, $75 billion was from proprietors' equities and $33 billion was through increased liabilities. The proprietors' equities fell during this period to 81 percent from 88 percent.

Question 8. Do you have with you a convenient list of the loan and grant programs administered by your Department (Agency) for which rural governments, rural private economic enterprises, and rural residents are eligible? We should appreciate having the complete list with a brief description of each for the record of this hearing.

Answer. Yes, sir, we have such a list and will provide it for the record.

(The information follows:)

U.S. Department of Agriculture

LOAN AND GRANT PROGRAMS IN RURAL AREAS

Farmers Home Administration

Comprehensive water and sewer planning grants are made to provide technical and professional services, test wells, and soil and water investigations. Grants may be made to public bodies, political subdivisions and local planning commissions. Plans must be limited to a rural area and may not include towns or villages in excess of 5,500 population.

Emergency loans are made for operating and living expenses, replacement of equipment and livestock, and real estate repairs. Emergency loans are made in counties designated by the Secretary of Agriculture as disaster areas and in other undesignated areas where only a small number of loans will be made. Established farmers and ranchers who have suffered property damage or crop loss due to a natural disaster are eligible for loans.

Farm labor housing and grants may be made to farmers, nonprofit organizations, and public bodies and loans to political subdivisions and nonprofit organizations. These loans and grants may be used to build, repair or purchase adequate farm labor housing, acquiring and improving land for such housing, and developing related facilities such as central cooking and dining areas.

Farm operating loans are made to persons of farm background for the purpose of livestock and farm equipment and for living and farm operating expenses.

Farm ownership loans are made to farmers and ranchers to enable them to buy, enlarge and improve family size farms and develop non-farm enterprises.

Grazing association loans are made to associations of family farmers and ranchers for the purchase and development of grazing land for the use of association members.

Irrigation, drainage and other soil and water conservation loans are made to public and quasi-public bodies and corporations not operated for profit which will serve residents of rural areas which may include towns and villages up to 5,500 population. Loans may be used for irrigation, drainage and other soil conservation measures.

Low to moderate income housing loans are made to U.S. citizens who are or will become rural residents. Loans may be used to build or repair modest homes and to provide water and sewer facilities for the family. Interest credits may be allowed which will reduce the interest rate to as low as 1 percent.

Rural housing site loans are made to nonprofit organizations for the purchase and development of adequate rural housing sites for later sale to low and moderate income families, cooperatives, and nonprofit applicants.

Recreation facilities loans are made to residents with a background in recreational enterprises. Loans may be used to develop land and water resources, repair and construct buildings, purchase land and recreation items, and to pay operating expenses.

Resource conservation and development loans are made to public agencies and local nonprofit corporations in designated areas. Loans may be used to install or improve outdoor oriented recreation facilities, and soil and water conservation facilities.

Rural rental housing loans are made to individuals, cooperatives and nonprofit organizations. Loans can be used to build, buy, improve or repair rental housing. Loans may also be used to provide recreational and service facilities for the rental housing.

Soil and water loans are made to eligible applicants for basic land practices such as leveling, liming, fertilizing, and for irrigation facilities.

Very low-income housing repair loans are made to rural residents to enable these residents to make their homes safe and sanitary.

Water and waste disposal systems loans and grants are made to public or quasi-public bodies and nonprofit corporations which will serve residents of rural areas, including towns and villages of not over 5,500 population. Loans and grants are made for the installation, improvement, repair and expansion of rural water and sewer systems.

Watershed protection and flood prevention loans are made to local organizations such as municipal corporations and soil and water conservation districts. Loans may be used to install, repair and improve irrigation and drainage facilities, to provide land treatment and other flood control measures and provide water storage for recreation, pollution abatement and stream flow regulation.

Rural self-help housing technical assistance grants are made to political subdivisions and nonprofit corporations. Grants may be used to hire personnel to provide technical assistance for self-help housing, to pay administrative and office expenses, to make power tools available, and to pay for training self-help housing group members.

Indian tribes and tribal corporation loans are made to Indian tribes recognized by the Secretary of the Interior. Loans may be used to acquire land for lease to tribal members or for recreational, grazing, or commercial use.

Rural Electrification Administration

Electric loans are made to qualified organizations for the purpose of supplying central station electric service on a continuing basis in rural areas. Electric loans are made to rural electric cooperatives, public utility districts, power companies, municipalities and other qualified power suppliers. A small number of loans are also made for wiring of premises, plumbing and electrical equipment and appliances. These loans are made to REA borrowers for relending to individual consumers on their lines.

Telephone loans are made for the construction, operation, expansion, improvement and acquisition of telephone lines and facilities to provide modern, dependable telephone service in rural areas. This service is to be extended to both farm and rural nonfarm residents, on an area coverage basis, under rates and conditions that permit full and productive use of these utility services. Eligibility for telephone loans extends to telephone companies and cooperatives, as well as to nonprofit, limited dividend, and mutual associations. Beginning in fiscal year 1972, the Rural Telephone Bank (authorized by P.L. 92-12, approved May 7, 1971) will provide loan funds to supplement the regular REA telephone loan program.

Agricultural Stabilization and Conservation Service

Commodity loans and purchases. Price support loans are available to farmers to improve and stabilize farm income, to assist in bringing about a better balance between supply and demand of the commodities, and to assist farmers in orderly marketing of their crops.

Price support loans to producers are "nonrecourse." Producers are not obligated to make good any decline in the market price of the commodity they have put up as collateral. If market prices rise above support, producers can pay off their loan and market their commodity. If market prices fail to rise above support prices, producers can pay off the loan through forfeiture of collateral. If the commodity is stored on the farm the farmer is responsible for maintaining the condition of the commodity.

Eligible commodities are feed grains and feed grain products, wheat and wheat products, rice, rye, blended food products, dry edible beans, castor beans and oil, flaxseed, soybeans and soybean products, honey, upland cotton, extra-long staple cotton, cotton products, dairy products, peanuts, tung nuts and oil, vegetable oil products, linseed oil, rosin and turpentine, tobacco, tallow or grease, and seeds and plants.

Storage facilities and equipment loans. The objective of this program is to complement the price support commodity loan program by providing adequate financing for storage facilities and drying equipment, thereby affording farmers the opportunity for orderly marketing of their crops.

The loans are used to finance the purchase of storage structures and drying equipment needed. To qualify for loans the farmers must meet the need eligibility requirements for storing or conditioning of one or more of the 12 eligible commodities as follows: barley, corn, grain sorghums, oats, rye, wheat, soybeans, sunflower seed, rice, dry edible beans, flaxseed and peanuts.

The Rural Environmental Assistance Program is available to farmers, ranchers, and woodland owners (primarily through cost-sharing) to carry out approved soil, water, woodland, and wildlife conservation practices, and agriculture-related water, air, and land pollution abatement practices.

The pollution abatement and conservation practices must be performed satisfactorily and in accordance with applicable specifications. The pollution abatement and wildlife conservation practices must also conserve soil or water. Program participants are responsible for the upkeep and maintenance of practices installed with cost-share assistance. The cost-share assistance does not apply if the primary purpose is to bring new land into production.

Emergency conservation measures enable farmers to control wind erosion on farmlands, or to rehabilitate farmlands damaged by wind erosion, floods, hurricanes, or other natural disasters.

Emergency cost-sharing is limited to new conservation problems created by natural disasters, which:

1. If not treated will impair or endanger the land;
2. Materially affect the productive capacity of the land;
3. Represent damage which is unusual in character and, except for wind erosion, is not the type which would recur frequently in the same area; and
4. Will be so costly to rehabilitate that Federal assistance is or will be required to return the land to productive agricultural use.

Soil Conservation Service

Great Plains conservation program assists farmers, ranchers, and others to install conservation plans for whole operating units through a program of scheduled technical assistance and long-term contractual cost sharing that will bring improved stability to the Great Plains area by converting lands unsuited for cropping to other uses and arrest deterioration of crop and grazing lands.

Cost-share funds are available only for enduring soil and water conservation measures determined to be needed to protect and stabilize a farm or ranch unit against climatic and erosion hazards of the Great Plains area, and applied in accordance with a conservation plan for the entire operating unit. Cost sharing to participants ranges for specified conservation practices from 80 percent of the cost, in the case of work most urgently needed, to 50 percent, for practices where the need is less urgent.

Resource conservation and development program assists local people to initiate and sponsor programs for developing and carrying out longrange programs of resource conservation and development, develop dynamic rural communities with satisfactory levels of income and pleasing environments through planned improvement of resources, and create a favorable investment climate attractive to private capital.

Technical planning assistance is provided in project areas authorized for such planning. Technical and financial assistance is available for the installtion of land conservation and land utilization works of improvement specified in project plans. Works of improvement may include measures serving purposes such as flood prevention, sedimentation, and erosion control, public water based recreation and fish and wildlife developments, and agricultural water management purposes. Loans for this program are made by the Farmers Home Administration.

Watershed protection and flood prevention program provides technical and financial assistance in planning and carrying out works of improvement to protect, develop, and utilize the land and water resources in small watersheds.

Assistance is provided in planning, designing, and installing watershed works of improvement; in sharing costs of flood prevention, irrigation, drainage, sedimentation control, fish and wildlife developments, and public recreation; and to extending long-term credit to help local interests with their share of the costs. The Flood Prevention Program is limited to the eleven authorized projects. Loans can be made by the Farmers Home Administration under both the Flood Prevention Program and the Watershed Works of Improvement Program (P.L. 566).

Food and Nutrition Service

Food distribution program provides food to qualifying households, individuals, schools, charitable institutions, and summer camps. Households and individuals may not be charged; assessments for in-state distribution costs may be made against other beneficiaries. Donated foods may not be sold, exchanged, or otherwise disposed of (authorized distribution excepted) without prior, specific approval of the Department.

Funds (formula grants) must be expended to assist in meeting operating expenses incurred in administering Food Distribution Programs for needy persons in households. These funds may not be used to purchase real property (land or buildings).

Food stamp program assists families through food stamps or "coupons" worth more than the purchase amount which varies according to income and family size. The coupons are used for the purchase of food in retail stores. The coupons may be used to buy any food for human consumption, except for items labeled as imported. Almost all grocery stores in food stamp areas are authorized to accept the coupons.

Child nutrition programs

Special food service program for children provides reimbursements to eligible institutions (day-care centers, settlement houses, recreation centers, and day camps) for food purchased for up to 3 complete meals and 2 supplemental meals daily. Financial help is also available to buy or rent necessary equipment.

School breakfast program makes funds available to reimburse public and nonprofit private schools for breakfasts meeting the requirements as established by the Secretary of Agriculture and which are served to children of high school grade and under. Program regulations provide for a Federal reimbursement rate of up to $0.15 per breakfast served or the cost of locally purchased foods, whichever is the lesser. In areas of severe need where all or nearly all of the children are in need of a free or reduced price breakfast, Federal assistance can total up to 100 percent of the operating costs.

Nonfood assistance authorizes the purchase of equipment for storing, preparing, transporting and serving food to children. The cash assistance may not exceed 75 percent of the cost of such equipment. Federal funds are available to assist schools drawing attendance from areas in which poor economic conditions exist to purchase equipment needed to establish, maintain, and expand food schools up to three-fourths of the total price of the equipment including installation charges.

Consumer and Marketing Service

Matching fund grants are made to State marketing agencies for carrying out specifically approved marketing service programs designed to bring about improved marketing. States contribute at least half the cost of the project and perform the work with State personnel.

Assistance to States for intrastate meat and poultry inspection provides grants to improve the state inspection programs. Those eligible for such assistance include the agency administering the state meat inspection program under laws comparable to the Federal Meat Inspection Act. Federal funds shall not exceed 50 percent of the annual cost of the cooperative program. The grant funds shall be allocated among the states desiring to cooperate on an equitable basis.

Extension Service

Grants are made available primarily on a formula basis to the land grant college in each State and are administered by the Director of the State Extension Service. These funds assist the States in carrying out a program of out-of-school applied education in agriculture, home economics, community development, 4-H youth programs and related subjects.

Cooperative State Research Service

Grants are made to State agricultural experiment stations and other eligible institutions for the support of research in agriculture, the rural home, the rural community and forestry.

Forest Service

Cooperative Forestry Management grants are made by formula to the states for protection, management and development of state, local and privately owned forest land.

Forestry research grants are made available to nonprofit institutions of higher education or nonprofit organizations whose primary purpose is the conduct of scientific research. The research is directed to timber production, forest management, forest fire control and related areas.

General forestry assistance funds are made available to the State forestry agencies to carry out special studies and projects to improve forest management and product utilization.

Question 9. Can you give us an estimate, or general idea of the amount in dollars of each of your Department's loan and grant programs that was expended or committed in a recent fiscal year in a place or in a manner that contributed directly to rural community development purposes? We would like to have your best estimate for each placed in the record.

Answer. Yes, sir. We have a list of the Department's loan and grant programs which make a direct contribution to rural development along with the estimated fiscal year 1971 program levels. We will be glad to provide that for the record.

(The information follows:)

U.S. DEPARTMENT OF AGRICULTURE

Rural development loan and grant programs, fiscal year 1971

Agency and activity:	*Program level in thousands*
Farmers Home Administration:	
Water and sewer planning grants	$2,643
Water system loans	156,427
Water system development grants	19,302
Waste disposal loans	70,517
Waste disposal development grants	16,337
Combination water and sewer loans	34,760
Combination water and sewer development grants	5,717
Nonfarm enterprise loans	3,341
Recreation facilities loans	1,632
Resource conservation and development loans	1,979
Flood prevention loans	998
Watershed loans	6,758
Rural housing loans (includes mutual and self-help loans)	1,362,275
Rural rental housing loans	26,789
Farm labor housing loans	474
Farm labor housing grants	797
Very low-income housing repair loans	5,493
Mutual and self-help housing grants	1,721
Site development loans	1,609
Rural Electrification Administration:	
Electric loans	361,817
Telephone loans	125,000
Soil Conservation Service:	
Resource conservation and development grants	2,442
Flood prevention grants	8,873
Watershed program grants	44,668
Extension Service: Community development program	9,087
Cooperative State Research Service:	
Grants to States for community improvement and housing research	4,889
Total	2,276,393

Question 10. For each of the loan and grant programs of your Department that contributes directly to rural community development can you give us a general idea of the total need for the program in rural areas as defined by the bills before us today or some other convenient definition of rural areas? Please feel free to correct and complete your statement for the printed record.

Answer. The general needs for the loan and grant programs of the Department are discussed in the Report on Rural Financial Assistance, submitted to the Congress by the President on July 23, 1971. A copy is enclosed. Generally, the Report indicates that current effective demand for current Federal credit programs administered by this Department are approximately at levels of funding being provided or planed for FY 1972. Although requirements for credit in rural areas are expected to expand during the next decade, the basic programs exist for handling the increased demands for that part of the credit requirements to be met by USDA.

It is recognized that many rural families desire facilities or services that are not being provided by current credit programs. For these families, priority attention should be given to the President's programs to increase their income levels. In addition, more effective use of Federal financial assitance by rural communities can be achieved if the Congress enacts the President's rural community special shared revenue program, and the reorganization to establish a Department of Community Development.

Question 11. As you view the total job of rural community development as set forth in Title IX, how much more annual investment in rural areas, over and above the current rate of such investment do you estimate as being required to attain the goals of a balanced rural-urban growth policy?

Answer. The amount of annual investment in rural areas, over and above the current rate of such investment required to attain the goals of a balanced rural-urban growth policy has not been estimated. It would depend on, among other things, the mix of public and private investment, the kind of investment to be made, the locations in which investment is to be made, the number of jobs to be created and the income to be returned to each worker, and capital-labor mix. These variables generally are not susceptible to prior estimation.

Because the growth of the U.S. national economy generally is great enough to absorb increases in the labor force without reduced wages or unemployment, there is no expectation that Rural Development would increase the capital investment requirements for the Nation as a whole over what would otherwise be invested. An effective program would, however, alter the location of the investment and thus might alter the amount of investment in any specific area.

Question 12. As you view the total job of rural community development from the vantage point of your position in the Executive Branch, what are the major gaps as you see them in existing rural development credit programs?

Answer. The total job of rural community development will require strengthening of State and rural local governments; concerted efforts relating to such human resource development programs as education, health, manpower training and employment assistance; and credit assistance for public facilities, housing and commercial and industrial development. These compounds of rural community development are interrelated; indeed, demands for credit assistance depend heavily upon the degree of success in efforts to strengthen local governments, community institutions, and the human resource base. Demands for credit assistance are expected to expand significantly in some rural localities accompanying success in rural development. However, with more State and local governmental reponsibility and involvement in this development (including providing financial assistance) as would occur with revenue sharing for rural development and with expected additional financial assistance from private sources, we believe existing Federal credit programs available to rural people will be adequate.

Question 13. How much money, private or public, would be required on an annual basis over the next 10 or 15 years to fill the gaps as you see them?

Answer. We believe any gaps in levels of Federal credit for rural development, recognizing the substantial capital investment in public and private facilities that will be required for achieving the development, are difficult to estimate. We believe the provisions in both the general and special revenue sharing programs are the basic means for handling the increased demands for credit.

Question 14. Can the loan and grant programs of your department be expanded and amended in volume and scope to fill these gaps?

Answer. The loan and grant programs of this Department can be (and have been) expanded in response to increased effective demands for this assistance. For example, this Administration increased availability of FHA insured ownership loans by $50 million during FY 1971, and by an additional $90 million in FY 1972. Also, this Administration increased availability of insured loans for rural communities water and sewer facilities by $100 million in FY 1971, and increased the budgeted loan level in FY 1972 by $111 million.

Most of the increased demands for credit should be, and are expected to be, met by adjustments in commercial sources. Public financial assistance could be expanded through general and special revenue sharing, as proposed by the President.

Question 15. What are your recommendations for expanding and amending the rural loan and grant programs of your Department?

Answer. Our recommendations regarding expanding and amending the rural loan and grant programs of this Department are contained in the Report on Rural Financial Assistance prepared in response to Section 901(f) of the Agricultural Act of 1970, and in testimony by representatives of this Department on proposed bills relating to rural credit at Senate and House Committee Hearings. For example, we favored the recently enacted amendments to Farm Credit Legislation, the recently established Rural Telephone Bank, and the proposed authorization for Farmers Home Administration to insure farm operating loans. We also favor folding into the rural development special revenue sharing program the programs of USDA recommended in the President's proposal. We intend to seek improvements in the loan and grant programs of this Department on a continual basis as needs emerge.

Question 16. If your programs were amended and expanded as you would recommend, what gaps in financing for the needed rural community development efforts would still remain?

Answer. With Congressional enactment of this Administration's revenue sharing, reorganization, and other proposals affecting rural people and communities, and with continued adjustment in budgeted levels of Federal assistance with changing demands for this financial aid, we do not foresee any significant deficits in quantities of credit supplied in response to effective demands for rural development purposes.

Senator HUMPHREY. I believe that is about what we had in mind today, sir. And, once again, if you will reexamine our proposal, I should say to you in great candor that in this bill is a separate system over here [referring to chart], title I, relating to the total need of rural America, insofar as soft loans are concerned. That is a concept of social development, as well as economic development. And title II has what we call hard-loan decisions involved. And I think that, when you examine that, you will see what we have in mind. The payments provided in title II, to which you have referred, are entirely separate from the bank credit institutions. These payments are provided not to have bankrupt marginal loans; the purpose of these payments is special rural industrialization and rural development incentive payments, incentive payments specifically to encourage private industrial and other firms to locate new plants and new jobs in rural America. These payments, in other words, are similar to tax-exempt interest on industrial bonds, as a special incentive to locate new jobs in rural areas. What we are trying to do is open up several windows here. We are not saying that we ought not to have tax-exempt industrial bonds—in fact, I think this committee in the main would be pretty much for it. But we are saying that in some places if you don't have a State law that sets up districts then you ought to have another window to which you can go, because we think the credit needs are demonstrably evident.

Thank you very much.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Senator HUMPHREY. I think we will take about a 5-minute break. We always like to give our stenotypist and others a chance to kind of recoup for a moment.

Our next witness is from the Economic Development Administration, Mr. Blunt.

(Brief recess taken.)

Senator Humphrey. Mr. Blunt, Senator Bellmon and I are most grateful to you for your patience today. We thought it was very important to have the opportunity to hear from the Department of Agriculture, which is, of course, the main agency with which we work. You. I understand, are the chief counsel for the Economic Development Administration.

STATEMENT OF WILLIAM W. BLUNT, JR., CHIEF COUNSEL, ECONOMIC DEVELOPMENT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. Blunt. That is correct.

Senator Humphrey. May I ask, what is your home State and your home area?

Mr. Blunt. My home area is New York City and environs. I hope that doesn't reduce my credibility.

Senator Humphrey. Not a bit. As a matter of fact I like that great city.

Mr. Blunt. It has some problems, too.

Senator Humphrey. Of course, it has its problems. And I am afraid that rural America has maybe contributed to those, and we are trying to help a little bit.

How long have you been with the EDA?

Mr. Blunt. For 2 years.

Senator Humphrey. For 2 years. It is a fine agency. I want you to know that you appear before Senators who are sympathetic with the goals and objectives of your agency.

Mr. Blunt. Thank you very much.

Senator Humphrey. I am always worried that you don't have enough of means to do with.

But I will listen to what you have to say. And we thank you for coming. We think that we need every one of these loan agencies and development agencies to appear before us so that we can tie together the overall picture of the Federal Government in its relationships to rural America in terms of its loan and credit facilities. And then, we will sort it out and try to come up with a better program.

Do you have a statement?

Mr. Blunt. I have a two-page statement. I want to make it clear that the length of the statement does not reflect our concern with the problems. And I thought I would read through it very quickly.

Senator Humphrey. Please do.

Mr. Blunt. I would like to thank you and the members of this subcommittee for the opportunity to come before you today to testify on S. 2223, a bill to amend the Consolidated Farmers Home Administration Act of 1961, and for other purposes.

Title I of the bill, as you know, would extend the application of section 306 of the Consolidated Farmers Home Administration Act to authorize grants and loans not only for water and waste disposal facilities but also for all types of rural community development projects.

Title II of the bill would establish an extensive rural development credit system. Grants, loans, guarantees, interest subsidies, capital augmentations and other forms of financing and technical assistance as well would be available through the various institutions in the system to assist individuals and State and local governments in stimulating the economic, physical and social growth of rural areas.

We support the bill's purposes. We believe, however, that the administration's rural community development revenue-sharing proposal, in conjunction with other revenue-sharing proposals, will enable State and local governments to design flexible, responsive and, in the end, more effective programs for rural development. In fact, the provisions of the rural community development revenue-sharing proposal are flexible enough to permit a State to establish its own grant and loan program and credit system similar to those proposed by the bill.

Also, I think it is safe to say that credit needs in rural areas can probably best be perceived at the local and State levels. And, therefore, in terms of molding individual programs in the various States, revenue sharing presents a perfect vehicle for supplementing the flow of credit to the extent it is deemed necessary.

Even as an interim measure for the time before the enactment of revenue-sharing legislation, we would oppose this bill. Most of the tools authorized by the bill are already available under other Federal programs. EDA, for example, is now authorized to provide financing through grants, loans, and guarantees and to provide technical and other assistance. Although this financing is available only in designated redevelopment areas, these are the areas in fact where the problems are most acute. Other programs include SBA, the Agriculture Department program, HUD, and tax exemptions, which have been discussed to a certain extent today.

I should point out in talking about EDA's designated areas that through its special interim authority, which was enacted into law over a year ago, and which may be even more liberalized in accordance with some amendments that have been proposed, both in the House and in the Senate, EDA has a great deal of flexibility in the areas that it can designate.

Further, we do not think that there has yet been a satisfactory showing that the addition of the development bank to existing Federal programs would have a substantial beneficial effect on the problems of rural areas in relationship to their expense and problems that setting up such a system might cause. We are not at all sure that rural America requires such a massive injection of credit in any form, much less that of another Federal program administered by yet another Federal bureaucracy.

In that connection, I want to make it clear that I am not setting myself up as an expert on credit flows in rural areas, particularly rural areas where EDA is not active. But I think it is the feeling of the administration, and our feeling, that the combination of the Federal programs, as the Department of Agriculture stated, can be equipped to handle the problems.

In summary, Mr. Chairman, we oppose the enactment of this bill, and we urge your consideration of the President's revenue-sharing proposals.

That ends the printed part of the statement.

I would like to add a few things, if I might.

In the first place, you were discussing the fiscal implications of revenue sharing and what the sources of funds are. In addition to the Agriculture Department programs, EDA, the Appalachian Regional Commission and the title V commission funds would be included in the revenue-sharing package plus, of course, whatever additional funds there are. And, as you know, the purposes for which those funds are spent in communities, mostly by far, rural communities, are not as routine and not as stereotyped, perhaps, as some of the agriculture programs. They are not as pigeonholed, I guess, is the best way of putting it. So, in terms of flexibility, the actual practical flexibility available to the Governor, to the State legislatures, to the localities, which special revenue sharing for rural development might provide for, I think that this over $500 million contribution to that fund does, in fact, provide a fair amount of flexibility, and would allow for a reallocation of resources, for instance, to make more credit available in areas which perhaps do not meet the same need requirements that programs like EDA are intended to meet.

Now, your staff has indicated that there are two particular areas that you would like us to comment on. The first is how EDA programs would be affected. I know from your previous statements here that the existence of overlaps and possible conflict is a matter of some concern to the subcommittee.

First, in summary, let me describe what EDA does, although I know both the chairman and Senator Bellmon are familiar with EDA's program. EDA does create job opportunities both directly and also through the stimulation of the economic development process. Nearly a thousand counties are designated for EDA assistance, nearly one-third of the total number of counties in the United States. And, as you know, the vast majority of these counties are rural counties. The designated counties, redevelopment areas, are designated on the basis of need. But, as you know, we also have authority to support multicounty districts, where the needy counties group together with the healthy counties. We also have the authority to designate growth centers within these districts which are also eligible for assistance. These designations, particularly those designations in the healthier counties, are not necessarily places of last resort, but places where we feel that the potential for development of the entire substate region may be quite great, and where assistance therefore in the healthier areas is justified in terms of the overall purposes of EDA's legislation.

Our program is carried out through public works grants and loans, business loans, working capital guarantees, technical assistance grants, and perhaps in terms of the economic development process there is nothing as important as planning grants. Planning grants to counties, to multicounty districts, and occasionally to other organizations. EDA works very closely with these local organizations, and supports the local leadership. EDA tries—and I think is usually successful—to be responsive to local people at the local level.

Having said that, I would like to touch briefly on how the proposed program would affect, perhaps, the EDA program.

The first title of the act expands the authority of the Farmers Home Administration by expanding that authority to areas which, in fact, are areas which EDA also has authority to operate in, namely, economic development, job-creating projects, industrial development, grants for infrastructure which would support economic development. So the new authority would create an overlap. There are some tools, specific tools, which are included in the new authority for FHA, which are not presently available to EDA, such as broad insurance authority, loans for other than fixed assets, and other powers. I would like to point out that these various specific tools are concerned—these specific tools could be included in any existing program, I suppose, including EDA's, to the extent deemed necessary.

On the other hand, title I does not seem to allow for research or planning grants. It could be changed that way. EDA already does have authority in both these areas.

Passing on to the second title, the rural credit title, the program, of course, does again overlap almost entirely wth EDA's functions, not only through providing credit to businesses, but also by providing in effect credit terms in conjunction with the interest rate subsidies and capital augmentation grants, which would act as a substitute for even our public works grant authority.

The effect of this, I believe, would be to provide a general assistance program through rural areas which, in overlapping EDA's efforts, would have the impact of diluting what in EDA is a program intended to focus assistance. Our program is designed to seek out the areas where assistance is most necessary, or where assistance can be the most effective to cure problems of outmigration, as well as low income and employment in the districts where we operate. A general program of a sufficient scale, if the Federal Government can afford it, would work to take away the emphasis that the EDA program can provide.

You did allude earlier to that section on page 17, section 302 of title II of the bill.

We also have a similar policy, which consists of polling other Federal agencies to see whether grants and assistance are available in the areas, in the program areas where we operate. The operation of that system—and we believe we have tried to do as good a job as we can—has been criticized as being simply impractical, that there is no way without operating on a year timelag basis to really find out what is available and what isn't. And, therefore, I am suggesting that the provision as included in the bill may itself also be ineffective—that an overlap may not be avoided by that provision.

One last thing, I would like to point out that in terms of one of the things that we feel we accomplish, is not just to get out money into rural America but also to attract other people's money into rural America. And, in that connection, I would like to point out that while we have made an aggregate through fiscal 1971, for instance, of over $260 million of loans to businesses, we have attracted an aggregate of almost $330 million. Now, I grant you that that operation may not be on a scale that is going to save all of rural America, but I think it does show an effective aspect of the program in trying to do what you are trying to do.

Another interesting fact is that while we have 973 counties which are designated for assistance and as I say, by far, mostly rural counties, we have got 109 designated multicounty districts, which are receiving planning assistance. And I don't have the exact figures, but my guess is that there will be, at least, an additional 359 healthy counties associated with those of our redevelopment areas which are included in the district.

So saying, I am now open for questions.

Senator HUMPHREY. Very good.

I want to just visit with you a little while about your statement.

I first want you to think again about what you have said about the special revenue sharing relating to rural development. I have just been glancing through the original message that we have on it. And it provides a billion one hundred million dollars.

Mr. BLUNT. Yes, sir.

Senator HUMPHREY. And without arguing about the fund, whether it is $170 million more or $60 million, let's say a little over a billion dollars, of which $150 million is tied down to the Extension Service.

Mr. BLUNT. Yes, sir.

Senator HUMPHREY. It abolishes no offices or no agencies, all the offices and agencies are intact.

Mr. BLUNT. If I may just interject there, it would effectively abolish EDA, except for the support of our Indian program, because it takes all of our appropriations except for Indian programs and puts them into rural programs.

Senator HUMPHREY. But it does not abolish your agency nor your offices. You are there, as was testified to here recently by the Under Secretary of Agriculture.

Mr. BLUNT. I don't want to differ with the Under Secretary of Agriculture, but I think that the rural development revenue sharing in fact would effectively abolish EDA and title V commissions. And it provides for the continued existence of the Appalachian Regional Commission, but only at the sufferance, and if the States themselves want to support it with revenue-sharing funds.

Senator HUMPHREY. Let's assume that it only abolished the offices. Do you really think that Governors and legislatures at the local level are going to do away with some of those programs like the forest fire protection, for example?

Mr. BLUNT. Well, I think the rationale, one of the rationales of revenue sharing is that those programs may be more appropriate in some places than others, and that the allocation of funds within those programs, as dictated in part by Congress and in part by years of overlay of Federal regulations and policies, is not necessarily in tune with the real needs that exist. And in terms of abolishing programs, I think of the $543 million, or whatever it is, that comes from Appalachia, title V and EDA—all programs that are directed toward rural development. I am not suggesting that the funds would not be used for that general purpose—but they could be easily—but I think the Governor would probably feel that he had this flexibility in a practical sense to emphasize different things within the rural development framework than are presently emphasized by those programs. For example, EDA's funds are largely divided among public works programs and business loan programs. I am not suggesting that—well, it is quite possible I might decide that I don't want to make any business loans or conversely to make any more public works projects of the kind that EDA does. If your question is, would they stop doing what EDA is doing, I think the answer is probably no, because in most States there is a great need for it, but they would probably do it a different way. They might emphasize the credit aspect, or they might take the funds and use them in a way that they would get more leverage out of them, for instance.

Senator Humphrey. Are you aware of the fact that the Congress has already reauthorized the Appalachian Commission?

Mr. Blunt. Well, it is up——

Senator Humphrey. They have done so, but there was a veto, and it will be done again. The votes are in the Congress.

Mr. Blunt. That is true also.

Senator Humphrey. I am not saying whether it should or shouldn't, but those are the facts.

Mr. Blunt. It is also true of EDA. But if the revenue-sharing legislation is adopted, both of those authorizations would be amended to end within 6 months, I think, of the effective date of revenue sharing.

Senator Humphrey. You really think that the special revenue sharing is going to be adopted?

Mr. Blunt. I hope it is. I am not in a position to say.

Senator Humphrey. Thank you. I notice that—you say: "We are not at all sure that rural America requires a massive injection of credit in any form, much less that of another Federal program administered as yet by another Federal bureaucracy." And earlier than that I believe you indicated something to the effect that there was adequate credit for rural America.

Mr. Blunt. I suggested that there were some existing programs which provided for credit structure.

Senator Humphrey. "Even as an interim measure for the time before the enactment of revenue sharing, we would oppose the bill—most of the tools authorized by the bill are already available under other Federal programs." Do you think that rural America has the credit structure that it needs?

Mr. Blunt. As I said when I read my sentence, I don't mean what it sounds like, a categorical statement to set myself up as an expert, and I am sure the Department of Agriculture has a better feel for the overall picture than perhaps other Federal agencies. I think that the combination of existing programs provides a large source of credit and credit stimulation. And I think that revenue sharing would supplement that, and if the States want to make an even larger program, or perhaps a much different program, they could do so. No study has been made to my knowledge which is conclusive or even comprehensive enough to be interpreted as a strong statement as to exactly what the credit needs are, or whether they don't vary on a local, district, or State basis. And I think a Federal effort to make a massive infusion of credit directed largely—although the credit banks that would be set up are decentralized—nevertheless directed largely by Federal policy—I think a system like that has not been shown to date to be justified.

Senator Humphrey. Do you think the present system is satisfactory?

Mr. Blunt. No.

Senator Humphrey. What we are trying to do is fill a gap between what we see working and what we see not working. Now, let's go down this banking structure a little bit. For example you have indicated that this business of not making loans where credit is available elsewhere is an unworkable provision. Do you know that the Farmers Home Administration has been working in that area for some 35 or 40 years, and it has been working pretty well? The Farmers Home Administration has limited functions. It deals with distressed farmers. So do you. You deal with distressed people. What we are talking about here is not just dealing with areas in distress, but we are talking about a balanced national growth policy of, how can you build the economic fabric of rural America as well as the social fabric, before it gets distressed.

Now, the EDA is primarily related, as you indicated, to 972 counties that are eligible for your programs.

Mr. **Blunt**. Yes, sir.

Senator **Humphrey**. Those are counties in which there is substantial economic distress, is that correct?

Mr. **Blunt**. Yes, sir.

Senator **Humphrey**. How much funds do you have for 972 countries?

Mr. **Blunt**. On an annual basis?

Senator **Humphrey**. Yes.

Mr. **Blunt**. In the neighborhood of $230 million in program funds.

Senator **Humphrey**. $230 million. We are asking for $250 million for Lockheed, for one company. And you have got 972 counties, $230 million. With all due respect, $50 million of that is really for what you call distressed industries, is that correct, distressed areas?

Mr. **Blunt**. Well, $50 million is available for business loans?

Senator **Humphrey**. Business loans.

Mr. **Blunt**. The intent in the use of that money is to attract businesses into the area.

Senator **Humphrey**. Into distressed areas?

Mr. **Blunt**. It is also used to attract businesses into growth areas which we designate which are healthy.

Senator **Humphrey**. I was over to your agency about an area in my State which is both distressed and depressed, and totally, may I say, without economic life, unless we can get something pumped into it. And you don't have any money. That money is all gone, that $50 million, that isn't even tips in this economy, $50 million. I think you ought to have much more. I am not blaming you for not getting it, but you have got $230 million to do with for 972 counties across the United States. Do you think that fills the credit need for economic distress?

Mr. **Blunt**. I don't presume to say that EDA itself with $230 million or less is going to have that substantial and significant an impact on the overall problems of the country. I think two things. In the first place, it is combined with other Federal programs that expended a great deal more money in these areas. And EDA is able to focus on particular areas, and sometimes particularly through its district program, to get other Federal agencies to focus in those areas.

Another thing is that the funds that we spend we try to spend is, in effect, what you might call seed money or starting money. We try to get going an economic process that increases the tax base and attracts other industries without any Federal assistance, and, probably one of the most important things, motivates the people in the community and in the multicounty district to know what their problems are and care what they are and work themselves. And we have found a great deal of satisfactory activity in multicounty districts which we haven't even been able to make planning grants to just by organizing them, and getting them to other Federal agencies that perhaps have held out, and this sort of thing.

So I think we get a lot for our money; but I certainly can't say that we provide the backbone of the American credit system for rural America.

Senator HUMPHREY. Do you know any place in any of those other agencies of the Government where there is something that you would call, for example, a rural enterprise and community development administration? What we are talking about here is concentration upon rural America. We have the Small Business Administration, we have EDA, we have HUD programs. When the grab is on for the limited amount of money, do you think that the small town rural America gets its share?

Mr. BLUNT. Well, I think HUD probably deserves a little more credit than it gets in this area. I can think of a town, Livingston, Ala.——

Senator HUMPHREY. Don't give me a specific instance, give me the percentage of the total amount of towns.

Mr. BLUNT. I don't know.

Senator HUMPHREY. The percentage is very small; we are going to get the exact percentage. Forty percent of the population in this country lives in towns under 35,000; the entire United States, 40 percent. And I venture to say that there isn't 40 percent of the appropriations that go to towns under 35,000 of those relief appropriations or emergency appropriations that we get.

You take a look here. Title I is the Farmers Home Administration expanded to do the very thing that you said was necessary, and other witnesses, namely, to try to build the infrastructure. Title II over here is strictly a banking operation, and is not a Federal bureaucracy any more than the Farm Credit Administration is a Federal bureaucracy—it is built on the same principles, where the borrowers and the users will ultimately own it. The only difference is that we require that those headquarters offices and those regional bank offices be in rural areas. We require that those persons who serve on those boards be rural people. We require that they work with local government. And we require that every loan be a part of a plan designed at the local level and administered by local people within the vision of the local community. We think that we have not created a new bureaucracy. As a matter of fact, there is a consolidation, we have strengthened, may I say, the offices of the Farmers Home Administration. So that you can phase them together. We use local banks. We use local multicounty offices as finance agencies for the financing of community development—and what the regional bank does, in a sense, is to buy the paper from local finance institutions. We let local people make the decisions as to the loans that are going to be made—what the banking structure does is to see to it, like Fannie Mae, for example, sees to it that some of the housing paper is bought up. What our banking structure does in substance is to see to it that moneys are loaned out at a local level for local development within a local planning concept. The regional bank makes it possible for those loans to be discounted, for the paper to be purchased, so that your local agency can do its job of providing capital assistance for local government and for private industry.

Now, the only subsidies involved are the subsidies similar to those made available under tax-exempt bonds. In other words, to get a business established we look upon this as supplemental to everything else that we are doing. The truth is that we have been providing cough drops to the patient when he needs substantial anti-infection vitamins, so to speak.

I will give you an example. I am a pharmacist by original training. If you give a man 25,000 units of penicillin when he has got an infection, you would be better off if you gave him a package of spearmint chewing gum, because it tastes better and it will do just as much good. What we have been doing under those Federal programs, we have been giving them 25,000 units of penicillin when they needed 500,000 units. And that is why the programs frequently haven't worked. We come in with a little old cough drop when they need some massive dosage. And what we are providing for is a line of credit that gives two things which you can't give, the large amounts of money that are needed, and continuity. You don't know next year whether you are going to have any money. If you are going to start up a business, and you get a loan, you don't know whether the Congress is going to give you any money the next year. Or they may give you half as much. So, you have helped a fellow get started up, but if he needs further capital, and comes back to you to secure it, and you have to say—I'm sorry, everything has changed, we have a new chairman of the committee, or a member got angry, or something went wrong—but we didn't get the money. He can't run a business that way. That's why we want to establish this bank. We set up the bank for cooperatives, the Federal land bank, the Farm Credit Administration, the PCA's, and they all have worked. And we say that for rural community development we need the same sort of structure. That is what we are really saying.

Now, the nuts and bolts of our new bank structure may not be right. I think we have to watch out that we don't duplicate I am worried about all this extra personnel, this business of building offices and all that. We want to minimize that. And that is where we need counsel and advice.

But I have to take sharp exception to your testimony when you say that you believe that the farm credit needs of our country will be able to be fulfilled by existing agencies. If they are, then a lot of people in this Government ought to be fired. Because if they are available, then why haven't they been doing their job?

I think you try to do a good job. I think you personally and your agency tries to do a good job. But after all, you can't do any more of a job than the funds that you have got to do it with or the authority that you have. And the real truth of the matter is that most of the time we haven't had funds. We still don't have them.

And what we are trying to do is to go into other money markets—or as you said, attract other people's money into rural America. This bank depends for most of its financing on the money market. It means that we can go to California or New York to provide the capital of this bank, in stock issues and bonds, to attract money from those markets to Oklahoma, Minnesota, Alabama, Kansas, and Nebraska. It raises the lion's share of its capital—what is the percentage that we raise outside, John?

Mr. **John Baker** (consultant to the subcommittee). All of the loans would be made from money raised in the central market from the sale of bonds or debentures.

Senator **Humphrey**. So that is where we get our loan capital, with the exception of the original capital stock, which the Federal Government will put up a maximum of $200 million a year over a 10-year period, which is the Federal Goverment investment, all of which will be paid back. We go into the money market to raise our capital, to take money from the big money markets, and to put it into rural America.

Now, I will never forget my experience as a young man. We ran an independent store. Every dollar the Humphrey's drugstore ever made was from Huron, S. Dak. We were a family business, and we deposited our money right there in the Northwest Security Bank. And we kept our money there; what little profit we made, it was reinvested there. But with all due deference to my friends, Woolworth's, Kresge's and Montgomery Ward, they didn't leave their money there—I'm not trying to scold them—they deposited it there for a few weeks, and then it was shipped out to their central banks.

I want to get somebody to get the money that is normally shipped out of a community shipped back into the community. And the way you do that is by going out and selling debentures and bonds to attract money for loan purposes. And this is what we think this bank will do, which EDA doesn't do in sufficient quantity EDA takes Federal funds—tax funds, by the way—and makes them available for purposes of grants and loans.

Now, I have supported that. But I must say that I think we will never get enough tax funds for purposes of rural America's development. We have to tap the money markets. And that is what we hope to do in this banking structure.

So I wish that you would take a look again—unless you basically disagree—to determine if there is sufficient credit for rural America. If we are on the opposite side of the post—and you may believe that—you must prove it to me. Because the people I talk to say that is not the case.

Mr. Bellmon.

Senator **Bellmon**. Thank you, Mr. Chairman.

Mr. Blunt, let me ask you a few questions, it is almost 12:30.

Can you tell me how many unfilled applications EDA carried over from July 1, 1971?

Mr. **Blunt**. In what area, public works or business loans?

Senator **Bellmon**. In loans and works and grants, the whole field, all of it.

Mr. **Blunt**. I believe around $60 million in public works. I am not sure of the number of applications.

Senator **Bellmon**. $60 million for public works.

Mr. **Blunt**. I don't know what it would be in business loans, but what I would prefer to do, if it is all right with you, is give you these figures afterward for the record. Because I am not familiar with them.

Senator **Bellmon**. I would appreciate it. I think it would be valuable for the committee to have it, for all across the country. I would like to know how far the Congress is coming short of meeting the demand for funds for rural development.

(The information is as follows:)

EDA carried over from fiscal year 1971 to fiscal year 1972 the following applications:

[Dollar amounts in millions]

Program	Number of applications	Total dollar amount requested
Public works	126	$66.1
Business loans	26	29.6
Technical assistance	71	5.16
Planning grants to redevelopment areas	[1]	[1]

[1] None.

With respect to planning grants to multi-county Economic Development Districts, EDA does not accept applications for assistance unless adequate funds are available. However, at the close of FY 1971, 30 multi-county areas have been authorized to receive planning assistance, as soon as adequate funds are made available to EDA. EDA planning grants average $50,000; thus, the aggregate amount needed to fund such multi-county areas would be $1.5 million.

Mr. BLUNT. Well, in understanding our backlogs one thing ought to be kept in mind, and that is that our policy is not to encourage people to be discouraged. In other words, a backlog may or may not be an accurate reflection, because if we don't think we have the funds, we don't encourage someone to submit an application and wait 3 years until they can get them. So with that reservation I will be happy to do it.

Senator BELLMON. In other words, the figure you will give us will be a conservative figure?

Mr. BLUNT. It could be, yes, depending on the activity which might have existed in the field if we didn't have this policy.

Senator BELLMON. I am of the opinion that there are more than $60 million in applications pending in Oklahoma, at least we have that many pending in our office, if they haven't reached you they are on their way.

Another point I would like to make is, do you think there is a chance that EDA will ever get all the money it needs to properly service those applications?

Mr. BLUNT. I think, looking at EDA as a specific agency—and I think the same thing would hold true with the new proposal, the Federal Farm Credit—has to be looked at in the context of the entire budget. And it is hard for me to try to predict what portion of that might go for EDA's contribution to rural development or the Agriculture Department, or all the other Federal agencies. I think it is safe to say that we will never have enough money to solve the country's problems in rural America. And it doesn't even matter how much money the farm credit system had, because I am afraid the problem is going to be with us to a certain extent all the time.

Senator BELLMON. The point has been made that the Congress doesn't have enough money. Do you believe there is a need to attract more private funds into rural development?

Mr. BLUNT. Yes.

Senator BELLMON. Do you have another idea how we can do it? I think this is what the committee is after. If you don't like this approach——

Mr. Blunt. I think, to go back to the special revenue sharing, and putting aside the amount of money that is in rural development revenue sharing—because now I am talking about dollars, which is an arbitrary figure——

Senator Bellmon. But that is every bit tax money. And changing the title of it isn't going to increase the amount.

Mr. Blunt. This is tax money, but in States—New York State, for instance, has an urban development corporation which operates not only in New York City, but also in small urban areas, which has raised $230-odd million in a bond issue, which I believe was guaranteed by the State, and used the same kind of leverage device you are talking about here. And I think with rural development funds the State itself could guarantee the basic capital necessary to get a credit institution going in the State.

Senator Bellmon. You have testified in opposition to another Federal bureaucracy, and now you are talking about a 50-State bureaucracy, 50 State development banks.

Mr. Blunt. Most States have development efforts ongoing at the present time. My guess is that it wouldn't so much create newer bureaucracies in the State as it would redirect some of their efforts, and maybe in many States supplement efforts that are already going on.

Senator Bellmon. I would like also to comment on your statement on page 2 where you say: "Although this financing is available only in designated redevelopment areas, those are the areas in fact where the problems are most acute." Our information is—and you have testified—that of the 3,300 counties in the country, 972 are EDA counties. So this means that well over 2,000 counties do not have EDA programs available. In the State of Oklahoma we have 77 counties, and 30 of those counties are EDA counties. And that is in all the different categories. Now, my point is that I think the Congress is making a mistake if it sits on its hands and waits until a county gets in trouble before it makes tools available for that county to help itself.

I am reminded of my father. When I was growing up we used to raise our own potatoes and store them in the cellar under the house. And every weekend it was our job to go down and sort the potatoes. We took the bad ones out and my mother cooked them, the ones that were about to spoil. If we had thrown them away we could have eaten good potatoes all winter.

And that is what we do here—we wait until the county goes sour, and then say, "We are going to help you."

Mr. Blunt. We are also concerned with when you attack the problem. And we are not interested in losing good potatoes.

Senator Bellmon. Are you concerned with preventing problems?

Mr. Blunt. Well, yes. And we have worked on criteria to try to develop ways of showing when a place is going to be in trouble. And it is not an easy job. But the problem that we face, on the other hand—and I think one of the problems with the proposed bill is the alternative, the tremendous expenditure of resources everywhere in the hope that you are catching places where problems are going to exist. And I think that trying to identify the specific localities—although this may be very difficult—is an avenue of approach that ought to be looked into. And I can't say we have successfully come up with a magic formula. I remember one designation criteria that we developed for finding places that were going to be in trouble, and we ended up with a lot of places that looked like they were going to be in trouble as well as Westchester County and Montgomery County or something like that. It is not easy to develop the criteria, but I think it is something as an alternative that ought to be explored.

Senator **Bellmon**. Let me say that it doesn't make a bit of difference if the area is in trouble or doing well, if we can provide rural development, rural opportunity, this is in the best interest of not only the rural areas but New York City as well. You don't need any more people in New York City, I think you would agree. And if we could do something to attract some of those back where they come from I think you would probably approve of this.

Mr. **Blunt**. As you know, that was one of the original intentions of our legislative authority.

Senator **Bellmon**. Why do you suppose you haven't succeeded?

Mr. **Blunt**. Well, I think there are a lot of reasons——

Senator **Bellmon**. Have you looked at the recent census? Do you know how badly you did?

Mr. **Blunt**. One is resources, $230 million, as the chairman pointed out——

Senator **Bellmon**. Here is a chance to get a lot of private resources into this area.

Mr. **Blunt**. I think there are a lot of other reasons too. I think until the last few years the cities have appeared to have had attractions to people regardless of their own rationale that have drawn them away.

Senator **Bellmon**. On that point, have you seen the studies that have shown that something over 60 percent of the people in this country prefer to live in rural areas or small towns? The cities have only one attraction, and that is income.

Mr. **Blunt**. Except that jobs have never existed for most of the people in New York City. The unemployment rate in New York City in the poor areas has always been extremely high.

Senator **Bellmon**. But New York City has very broad welfare programs, as I am sure Governor Rockefeller would testify.

Mr. **Blunt**. I am not going to comment on the New York welfare situation.

Senator **Bellmon**. But the people on welfare would much prefer to earn their livings in the rural areas where they came from, don't you agree?

Mr. **Blunt**. I do agree.

Senator **Bellmon**. I would like to say in conclusion that I think the administration has made a serious mistake. We have had two witnesses up here, and both of you have testified that this is a bad deal but neither of you have come up with a positive approach saying that the contrary is true and we would like to suggest that you go about it this way. I think the way you are going about it isn't adequate. I think it is entirely wrong for the administration to sit back and say, "We will take the same money and call for revenue sharing and pass it out in a different way, and we will get the result we need." The fact is that the amount of money isn't going to do the job, and there will never be enough money available from the treasury to get on with the task. And I would like to suggest to you and I am going to suggest to the Department of Agriculture, that they try to reexamine what has been proposed and see if it can't be improved and made more workable.

Mr. Blum. In that regard I want to say that of course EDA is very concerned with the problems, and we want to see the Federal money and local money used to its best advantage, and we will certainly cooperate with the staff of the committee in giving them whatever knowledge we have about the kind of problem we have faced in the hopes that that will help your efforts.

Senator Humphrey. Thank you very much, Senator.

Might I just add, I think you were here, Senator Bellmon, when I mentioned that the Small Business Administration was asked to come, but Mr. Kleppe didn't feel that he ought to testify. I want to get this hearing away from being an adversary proceeding. I think this is the most bipartisan subcommittee that the administration is ever going to find, in spite of the fact that I serve as its chairman. I want to see some results. I am not interested in whether or not we pass a bill that has my name on it. This is a bipartisan bill. Actually this bill has much of its genesis in the work of Senator Talmadge. He is the chairman of our committee, and he is a member of the finance committee, and is a powerful Member of this Senate. And it has the support of men like Senator Aiken, and Senator Young, and Senator Sparkman, and I hope of many others. None of those men are foolish. They are old timers in the field of agriculture, in the sense that they have given their years of public service to it. I think the administration—I am not sure you are the appropriate witness for this, but you can carry it back to your superior—the administration ought to look upon this as an opportunity for a cooperative endeavor. We are not interested in having a fight, we are interested in filling a credit gap. And if we haven't the right bill, I venture to say that every member of this committee is prepared to sit down and work out a bill that is the right bill. I have been around Congress a long time. You seldom end up with a bill that has everything in it that you started with.

But I do know that we haven't had the response that we ought to have from the administration. The fact is—and nobody can dispute it—that the credit needs of rural America are not being taken care of, and they are never going to be taken care of out of the taxpayers' money. There is no way that Congress can get enough money out of the revenues of the Government. We have got to get into the money markets, just like the Inter-American Development Bank finally found out. So they went into the money market because they learned that they couldn't depend upon foreign aid appropriations to meet their annual needs. The World Bank is in the money market. And I don't know why in the name of common sense that we can't have a bank that takes care of a few Americans for a change. We have an awful lot of banks helping everybody else. And we have more requests up here for money for the Asian Development Bank, the World Bank, the Inter-American Development Bank, and it doesn't make any difference whether it is a Republican President or a Democratic President they all say those banks are great and they all work good. And they do, they really do! And I say that they loan money to worse credit risks than this bank will ever do, because we are going to loan money to people we know how to talk to and who speak our language and they live near at hand. But it is no trick for the administration to come up and say, "Put $400 million in the Asian Development Bank. It is a great idea." I was a part of an administration that recommended that. The present administration continues to recommend it. I support it. But just between us, as new friends, I would rather loan some money to the folks out in Oklahoma for a little while than I would to loan more money to the folks in Burma. It is a kind of selfish attitude, but that is the way I am getting to feel. I think this country needs a little time to get a hold of itself. And there is a big section of this country that hasn't got a hold of itself at all, including our central cities and rural America and we are going to do something about it.

So when you go back you tell them, come hell or high water, we are going to pass some rural development legislation, and we want you to get on the ship as it goes by. Because we are going to do something. OK.

Mr. BLUNT. Thank you.

Senator HUMPHREY. We are going to send these questions to each of the witnesses so that we get the answers back. We have a series of questions that relate to provisions in the bill to which we would like specific comment, and it will take some time to get those comments.

(Whereupon, at 12:35 p.m. the subcommittee adjourned, to reconvene at the call of the Chair.)

(The questions and answers referred to above are as follows:)

THE SECRETARY OF COMMERCE,
Washington, D.C., October 13, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee, Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further reply to your letter of July 27, 1971, wherein you requested the Department of Commerce to prepare answers to 16 questions dealing with rural development in connection with the Senate Rural Development Subcommittee deliberations on S. 2223 and the Pearson Amendment to S. 1483.

We are pleased to submit those answers which are enclosed.

We trust this reply will be useful for your purposes.

Sincerely,

MAURICE H. STANS,
Secretary of Commerce.

DEPARTMENT OF COMMERCE ANSWERS TO QUESTIONS POSED BY SENATOR HUMPHREY

Question 1

The wording of the Congressional statement of commitment contained in Title IX, section 901(a) does not explicitly bind the Executive Branch to take any specific action to strike a rural-urban balance or to revitalize rural areas. However, this statement of commitment is in accord with the policy of this Administration to further balanced rural-urban growth and to revitalize rural America through effective programs. The Administration's high priority commitment to this policy is reflected in the President's decision to seek the enactment of his reorganization and general and special revenue sharing proposals, including, and especially, the Rural Community Development Revenue Sharing proposal. The $1.1 billion authorized by the Rural Community Development Revenue Sharing proposal will enable State and local government to establish meaningful rural revitalization goals and to devise development strategies and programs best suited to local needs.

The provisions of Title IX, section 901(b), relating to the location of facilities, are by their terms specifically binding on all departments and agencies of the Government. The other provisions of Title IX bind the President and certain departments, other than this Department, to submit various rural development reports to Congress. The Department of Commerce has provided and will continue to provide appropriate support and cooperation in the preparation of these reports.

Question 2

We interpret the first sentence of Title IX, section 901(a) to call for balanced economic development and a better quality of life in both rural and urban areas. In addition, unfavorable migration patterns between urban and rural areas must be stemmed and a healthy rural-urban economic relationship must be established.

With regard to the second sentence of this section, we interpret it to mean that priority attention must be given to stimulating socio-economic development in rural areas, so that such areas may be developed in accord with a balanced growth strategy as viable alternatives to existing urban areas.

Question 3

We do not have an estimate of the probable cost of construction of community facilities necessary to meet the goals of Title IX.

Question 4

We respectfully submit that we cannot provide you with an estimate of the prospective asset value of new industrial plants and other construction by private economic enterprise that would be required to reach the President's rural community development goals for the following reasons. The President's goals are directed to the general improvement of rural areas. The translation of these general goals into specific goals and programs, as provided in the President's Rural Community Development Revenue Sharing proposal, is to be left to State and local government. Until such time as specific local rural development goals and programs concerning, for example, the nature and quality of employment opportunities and industrial development, are articulated, it would be premature to make any assessment regarding the asset value of new industrial plants and other private enterprise construction.

Questions 5, 6, and 7

It is our understanding that the Development of Agriculture has provided answers, which are based on certain assumptions concerning the scope and nature of the rural development process, to these questions. We have no additional specific information in regard to these questions.

Questions 8 and 9

A list of the Department's loan and grant programs (Tab A) which are available for rural uses, together with expenditures for rural areas (defined as areas outside SMSA's) (Tab B) is attached hereto. These programs are administered through the Economic Development Administration and the Title V Regional Commissions.

Question 10

All of the rural economic development assistance programs administered by or through the Department are aimed at either economically distressed areas or underdeveloped areas. The needs of the rural areas that qualify for assistance vary greatly. For example, an underdeveloped area may need basic community infrastructure, e.g., water and sewer lines, while an economically distressed area may require information and assistance to convert existing plant and manpower to more fruitful industrial activity. And, as is often the case, such areas may need assistance that is not provided by the Department, e.g., housing. Given the variety of the needs of these areas and the lack of specific legislative goals, it is impossible to determine the exact level of expenditures which would satisfy the total needs of all of these areas.

Questions 11 and 13

Given the unquantifiable nature of the goals expressed in Title IX, we have not made any specific estimates of needed increases in annual rural investment for the present or over the next 10 to 15 years.

Question 12

The major gaps in rural development programs appear to arise from the fragmented manner in which Federal assistance has been allocated to rural areas. A host of Federal agencies administer many different assistance programs with varying eligibility and other requirements. There are inequities in this structure where rural communities of over a certain size are not eligible for assistance, or where one county may receive aid and a neighboring county only slightly better off economically is barred. The President's Rural Community Development Special Revenue Sharing proposal, with his other revenue sharing proposals, would effectively remove those inequities by placing primary responsibility for rural assistance with the States where the differing needs of rural areas can more easily be accommodated.

Question 14

The funding of the loan and grant programs of the Department could be expanded to provide additional assistance. Traditionally, Congress has funded these programs at a level far below authorized levels—generally between 25% and 30% in the case of EDA. In addition, it would be possible to expand the statutory authority to include additional program tools. Although such measures would be helpful, they would still be only a piecemeal effort toward solving a problem which can really only be attacked effectively on a comprehensive basis. The combined revenue sharing program would be a more effective solution.

Question 15

The Department recommends the enactment of the President's Rural Community Development Special Revenue Sharing proposal as the best method of utilizing Federal funds, in combination with other revenue sharing funds, for enhancing rural development.

Question 16

We believe that the enactment of the President's revenue sharing proposals will permit each State to design and implement assistance programs tailored to fill its own major gaps in rural development.

11.300 ECONOMIC DEVELOPMENT—GRANTS AND LOANS FOR PUBLIC WORKS AND DEVELOPMENT FACILITIES

(FEDERAL AGENCY: ECONOMIC DEVELOPMENT ADMINISTRATION, DEPARTMENT OF COMMERCE)

Authorization: 42 U.S.C. 3131, 3135, 3141, 3161, 3171. Public Works and Economic Development Act of 1965; Public Law 89–136, as amended by Public Law 90–103, Public Law 91–123 and Public Law 91–304.

Objectives: To assist the construction of public facilities needed to initiate and encourage long-term economic growth in designated geographic areas where economic growth is lagging behind the rest of the Nation.

Types of assistance: Project Grants; Direct Loans.

Uses and use restrictions: Grants for such public facilities as water and sewer systems, access roads to industrial parks or areas, port facilities, railroad sidings and spurs, public tourism facilities, vocational schools, flood control projects, and site improvements for industrial parks.

Qualified projects must fulfill a pressing need of the area and must: (1) tend to improve the opportunities for the successful establishment or expansion of industrial or commercial plants or facilities, or (2) otherwise assist in the creation of additional long-term employment opportunities, or (3) benefit the long-term unemployed and members of low-income families or otherwise substantially further the objectives of the Economic Opportunity Act of 1964.

In addition, proposed projects must be consistent with the currently approved overall economic development program for the area, and for the district, if any, in which it will be located.

Eligibility requirements

Applicant Eligibility: States, local subdivisions thereof, Indian tribes, and private or public nonprofit organizations or associations representing a redevelopment area or a designated economic development center are eligible to receive grants and loans. Corporations and associations organized for profit are not eligible.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: Application must describe the type of proposed facility, estimated costs, extent of proposed project, direct job impact, estimated time for construction implementation, and assurance that the project will satisfy statutory requirements. Most important, documentation must demonstrate how the project will have a positive impact on the economic development process in the community.

Application award process

Preapplication coordination: Applicant should contact the regional office servicing the State in which the project is to be located. An economic development representative assigned as coordinator of the project for EDA will provide necessary forms and assist in filling them out. Intent to file application must be coordinated in accordance with Office of Management and Budget Ciricular No. A–95.

Application Procedure: The Economic Development Administration representative will meet with the applicant and community leaders to establish the basis for a preapplication conference. After reviewing project and local development profile information with the regional office, he will notify the applicant immediately if EDA cannot accept the project. If project appears viable, a preapplication conference will be aranged with regional office personnel.

Award Procedure: Grant and loan applications from States, local subdivisions thereof, Indian tribes, and private or public nonprofit organizations or associations representing a redevelopment area or a designated economic development center are approved by the Assistant Secretary of Economic Development, Department of Commerce.

Contract award must be made on the lowest base bid submitted by a responsible bidder, with a responsible bidder defined as one who can furnish a performance bond and who meets the applicable State and local statutory requirements.

Notification of grant approvals are provided to the State Control Information Reception Agencies on Standard Form 240.

Deadlines: During EDA processing time, applicant is required to submit to EDA a letter detailing the progress made in the community in fostering economic development process.

Range of Approval/Disapproval Time: Normally within 90 days of acceptance of application.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Grants may be made for up to 50 percent of the project cost. Severely depressed areas that cannot match Federal funds may receive supplementary grants to bring the Federal contribution up to 80 percent of the project cost. Additionally, redevelopment areas located within designated economic development districts may, subject to the 80 percent maximum Federal grant limit, be eligible for a 10 percent bonus on grants for public works projects. Long-term (up to 40 years), low interest loans may be made to the applicant when financial assistance is not otherwise available from private lenders or Federal agencies on terms which would permit accomplishment of the project.

Length and Time Phasing of Assistance: EDA grant funds are disbursed for costs incurred only after all contracts for construction have been awarded. EDA loan funds are normally disbursed when the construction of the project is 75 percent or more complete.

Post assistance requirements

Reports: Reports for specific project may be requested. No routine reports required.

Audits: Each recipient of financial assistance is required to keep such records as will facilitate an effective audit of the project.

Financial information

Account Identification: 06-10-2030-0-1-507.

Obligations: (Grants) FY 70 $173,899,000; FY 71 est $160,000,000; and FY 72 est $160,000,000. Face Value of Loans: (Direct) FY 70 $11,263,142; FY 71 est $14,000,000; and FY 72 est $14,000,000.

Range and Average of Financial Assistance: No specific minimum or maximum project amount, $1,000 to $4,585,000; $389,000.

Program accomplishments: Total approved projects: 2,168, Total obligations: $1.2 billion. Fiscal year 1966, 364 projects—$232,325,000; fiscal year 1967, 471 projects—$198,998,000: fiscal year 1968, 414 projects—$174,981,000: fiscal year 1969, 303 projects—$178,750,000; fiscal year 1970, 308 projects—$157,929,000; fiscal year 1971, (est), 308 projects—$160,000,000.

Regulations, guidelines, and literature: EDA handbook, "Building Communities with Jobs," EDA. "Grants and Loans for Public Works and Development

Facilities," EDA. "Area Eligible for Financial Assistance," "Guides for Overall Economic Development Programs," "Economic Development, Directory of Approved Projects."

Information contacts

Regional or Local Office: Refer to the appendix of the catalog for EDA regional office addresses.

Headquarters Office: Director, Office of Public Works, Economic Development Administration, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202)967-5265.

Related programs: 11.301, Economic Development—Loans for Businesses and Development Companies. 15.115, Indian-Industrial and Tourism Development, 23.001, Appalachian Regional Development.

11.301 ECONOMIC DEVELOPMENT—LOANS FOR BUSINESSES AND DEVELOPMENT COMPANIES

(FEDERAL AGENCY: ECONOMIC DEVELOPMENT ADMINISTRATION, DEPARTMENT OF COMMERCE)

Authorization: 42 U.S.C. 3142, 3161, 3171. Public Works and Economic Development Act of 1965; Public Law 89-136, as amended by Public Law 90-103, Public Law 91-123 and Public Law 91-304.

Objectives: To encourage private investment by providing low interest, long term loans to help businesses expand or establish plants in redevelopment areas for projects that cannot be financed through banks or other private lending institutions.

Types of assistance: Direct Loans: Guaranteed/Insured Loans.

Uses and use restrictions: Business development loans up to 65 percent of the cost of fixed assets may be used for the acquisition of fixed assets only (i.e., land, building, machinery, and equipment, including land preparation and building rehabilitation). Funds may be used for most kinds of new industrial or commercial facilities or to expand one already in existence.

In some special cases the Government can provide Federal guarantees of up to 90 percent of the unpaid balance of working capital loans obtained from private lenders. Working capital loans guaranteed by EDA may not be used for the acquisition of fixed assets. Loans can be guaranteed only for borrowers in the direct loan program.

Eligibility requirements

Applicant Eligibility: Any individual, private or public corporation, or Indian tribe, provided that the project to be funded is physically situated in an area designated as eligible under the Act at the time the application is filed.

Neither business development loans nor working capital guarantees will be extended to applicants who: (1) have, within the previous 3 years, relocated any or all of their facilities to another city, county, or state; (2) contemplate relocating part or all of their existing facilities with a resultant loss of employment at such facilities; and (3) produce a product or service for which there is a sustained and prolonged excess of supply over demand.

No financial assistance will be rendered to projects primarily engaged in the dissemination of news (e.g., newspapers, magazines, radio and television broadcasting), or in an activity violative of local or State law.

Beneficiary Eligibility: If an application is filed by a local industrial development corporation to establish a facility to be leased to a user (or beneficiary), the same criteria apply.

Credentials/Documentation: Applicants and beneficiaries must provide financial, engineering, and feasibility documentation supporting the viability of the project. Projects in which the federal participation will exceed $1,000,000 must be supported by an independent feasibility study conducted by consultant acceptable to EDA. Tourism projects and projects involving new, untried technology will also require an independent feasibility study.

Application and award process

Preapplication Coordination: Applicant should contact the regional office serving the State in which the project is to be located, and an economic development representative will be assigned to the project. With his concurrence, a preapplication conference will be scheduled with the professional staff of the regional office.

Application Procedures: At the preapplication conference, applicants will be provided with all necessary forms and detailed information relating to supporting documentation.

Award Procedure: Loan and working capital loan guarantee applications from individuals, private or public corporations, or Indian tribes, in eligible areas are approved by the Assistant Secretary for Economic Development, Department of Commerce.

Deadlines: None.

Range of Approval/Disapproval Time: 90 to 120 calendar days after receipt of application and complete supporting documentation is in good order.

Appeals: None. An applicant whose project has been denied may however, reinstate his application if the defects leading to a denial have been remedied.

Rnewals: Not applicable.

Assistance considerations

Formula and Matching Requirements: The Federal participation project may not exceed 65 percent of project fixed asset costs. A local development corporation or State agency usually participates to the extent of 5 percent. Of the remaining 30 percent, 10 percent must be in the form of applicant's equity and the balance from a conventional commercial lender. Applicants are encouraged to increase their equity participation beyond the minimum.

Length and Time Phasing of Assistance: Loans, 25 years, maximum; working capital guarantees, life of bank load. EDA loan funds will only be disbursed after all other funds have been injected into the project.

Post Assistance Requirements

Reports: Periodic financial and employment reports will be required. Initially, these may be quarterly, and, as the business becomes established, at longer intervals.

Audits: An annual audit by a certified public account will be required not more than 90 days after the close of the applicant's fiscal year.

Records: Not applicable except as required above.

Financial information

Account Identification: 06-10-2031-0-1-507.

Face Value of Loans: (Direct) FY 70 $49,360,000; FY 71 est $46,000,000; and FY 72 est $45,500,000. (Guarantees) FY 70 $44,424,000; FY 71 est $41,000,000; and FY 72 est $40,950,000.

Range and Average of Financial Assistance: No specific minimum or maximum project amount. $126,000 to $6,095,000; $1,153,000.

Program accomplishments: In fiscal year 1970, 43 projects were approved at a value of $49,993,000. Estimate for 1971 is 40 projects valued at $50,000,000.

Regulations, guidelines, and literature: "EDA Business Development Loans—Who can Borrow—How to Apply."

Information contacts

Regional or Local Office: Refer to the appendix of the catalog for EDA regional office addresses.

Headquarters Office: Office of Business Development, Economic Development Administration, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202) 967-5057.

Related programs: 11.800, Minority Business Enterprise; 12.600, Community Economic Adjustment; 23.001, Appalachian Regional Development; 59.003, Economic Opportunity—Loans for Small Businesses; 59.006, Minority Business Development; 59.012, Small Business Loans; 59.013, State and Local Development Company Loans.

11.302 ECONOMIC DEVELOPMENT PLANNING ASSISTANCE

(Development District Program; Redevelopment Area Program)

FEDERAL AGENCY: ECONOMIC DEVELOPMENT ADMINISTRATION, DEPARTMENT OF COMMERCE

Authorization: 42 U.S.C. 3151(b), 3152; Public Works and Economic Development Act of 1965; Public Law 89-136, as amended by Public Law 90-103, Public Law 91-123 and Public Law 91-304.

Objectives: To develop multi-county district (and redevelopment area) planning capability and thereby assure effective ultization of resources in creating full-time permanent jobs for the unemployed and the underemployed.

Types of assistance: Project Grants.

Uses and use restrictions: Grants are used for planning, staff salaries, and other administrative expenses of the economic development organization.

Eligibility requirements

Applicant Eligibility: (a) Areas designated as "redevelopment areas" or determined by the Secretary of Commerce to have "substantial need" for planning assistance. (b) Groups of adjoining counties, labor market areas, and/or Indian reservations which include at least two areas designated as "redevelopment areas" by the Secretary of Commerce, and 1 or more centers of growth not over 250,000 population.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: Evidence that development organization is broadly representative of social economic and political groups in area.

Application and award process

Preapplication Coordination: State and EDA concurrence in organization and boundary of multi-county district. Intent to file application must be coordinated in accordance with Affice of Management and Budget Circular No. A–95.

Application Procedure: Completion of Form ED–301 (application for Title III Planning and Administrative Grants-in-Aid). The application is submitted through an Economic Development Administration representative to the appropriate regional office.

Award Procedure: Grant applications for economic development organizations in redevelopment areas and economic development districts as approved by the Assistant Secretary for Economic Development, Department of Commerce. Notification of grant approvals are provided to the State Control Information Reception Agencies on Standard Form 240.

Deadlines: None.

Range of Approval/Disapproval Time: 30 to 95 days.

Appeals: Not applicable.

Renewals: Grants are made for 1 year period and are renewable.

Assistance considerations

Formula and Matching Requirements: A minimum of 25 percent must be obtained from non-Federal sources. This may be in the form of cash and "in-kind" contributions.

Length and Time Phasing of Assistance 1 year.

Post assistance requirements

Reports: Quarterly financial reports; periodic progress reports; "Designation status—conferring eligibility for EDA public works grants and loans and business loans and loan guarantees—is dependent on completion and annual up-dating of an Overall Economic Development Program (OEDP) satisfactory to the State(s) and to the Secretary of Commerce."

Audits: All records relating to the grant program are subject to audit by EDA and by the Comptroller General of the U.S., or by their designee(s).

Records: Financial records must be maintained until 3 years after the expiration of the grant.

Financial information

Account Identification: 06–10–2032–0–1–507.

Obligations: (Grants) FY 70 $5,520,000 ($4,606,000 districts and $914,000 areas); FY 71 est $6,195,000 ($5,000,000 districts and $1,195,000 areas); and FY 72 est $6,195,000 ($4,955,000 districts and $1,240,000 areas).

Range and Average of Financial Assistance: $20,000 to $75,000; $43,000.

Program accomplishments: In fiscal year 1976, 128 grants (102 district grants and 26 area grants) were awarded. In fiscal year 1971, 140 grants (115 districts and 30 area grants) will be awarded.

Regulations guidelines, and literature: EDA Economic Development Districts: A Job Creating Program; EDA Planning Grants for Economic Development: The Economic Development District Program; and Qualified Area: Criteria and Data.

Information contacts

Regional or Local Office: Refer to the appendix of the catalog for EDA regional office addresses.

Headquarters Office: Director, Office of Development Organizations, Economic Development Administration, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202) 343-8715.

Related programs: 11.303, Economic Development—Technical Assistance; 22.001, Intergovernmental Relations Advisory Service; 23.009, Appalachian Local Development District Assistance. •

11.303 ECONOMIC DEVELOPMENT-TECHNICAL ASSISTANCE

(FEDERAL AGENCY: ECONOMIC DEVELOPMENT ADMINISTRATION, DEPARTMENT OF COMMERCE)

Authorization: 42 U.S.C. 3151(a), 3152, Public Works and Economic Development Act of 1965; Public Law 89-136, as amended by Public Law 90-103, Public Law 91-123 and Public Law 91-304.

Objectives: To solve problems of economic growth in EDA-designated geographic areas and other areas of substantial need through feasibility studies, management and operational assistance, and other studies.

Types of assistance: Project Grant (and contracts); Dissemination of Technical Information.

Uses and use restrictions: Technical assistance is used to provide information, data, and know-how in evaluating and/or shaping specific projects and programs related to economic development. It is used in economically depressed areas of the country and in similar sections of urban areas. Technical assistance may be in the form of services provided by contract, or direct grants.

Eligibility requirements

Applicant Eligibility: While there are no specific applicant eligibility requirements most technical assistance applicants are private nonprofit groups or municipal or county governments or entities thereof, located in economically depressed areas of the county. Infrequently, technical assistance is given to small private business firms; however, this technical assistance must be repaid to the Government.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: No rigid requirement. However, corporation charters are usually requested.

Application and award process

Preapplication Coordination: Applicant should coordinate with EDA regional office serving his State. Intent to file application must be coordinated in accordance with Office of Management and Budget Circular No. A-95.

Application Procedure: Submit application to EDA regional office on form ED-302; if grant, also use supplemental form ED-300.

Award Procedure: Grants and contracts to provide information, data, and know-how in evaluating and/or shaping projects and programs related to economic development are approved by the Assistant Secretary for Economic Development, Department of Commerce. Notification of grant approvals are provided to the State Central Information Reception Agencies on Standard Form 240.

Range of Approval/Disapproval Time: 1 month to 3 months, but may be longer, depending upon condition of application.

Appeals: None.

Renewals: Technical assistance may be renewed. However, the limit is normally 3 years.

Assistance considerations

Formula and Matching Requirements: Technical assistance must be related to near-term job and income creation. For grants, contribution by grantee of 25 percent or more of total cost in cash or in kind is required.

Length and Time Phasing of Assistance: Varies, but usually period of 1 year or less. No time phasing.

Post assistance requirements

Reports: Quarterly reports, sometimes more frequently, are required.

Audits: Audits are performed on a sampling basis; unusually large or complicated project grants are audited routinely.

Records: Financial records are required to be kept for a period of 3 years following completion of grant.

Financial information

Account Identification: 06-10-2032-0-1-507.

Obligations: (Grants and contracts) FY 70 $12,398,000 ($9,919,000 grants and $2,479,000 contracts); FY 71 est $12,410,000 ($9,890,000 grants and $2,520,000 contracts); and FY 72 est $12,760,000 ($11,760,000 grants and $1,000,000 contracts).

Range and Average of Financial Assistance: $500 to $495,000. Technical assistance services, such as feasibility studies, average $25,000. Technical assistance project grants average around $80,000 to $100,000 per year.

Program accomplishments: in fiscal year 1970, 292 projects (grants and contracts) were initiated.

Regulations, guidelines, and literature: Leaflet entitled "EDA Technical Assistance, What It Is, How to Apply."

Information contacts

Regional or Local Office. Refer to the appendix of the catalog for EDA regional office addresses.

Headquarters Office: Initial contract should be at the regional office level except for projects which are national in scope. In which case, initial contact should be with headquarters office Director, Office of Technical Assistance, Economic Development Administration, U.S. Department of Commerce, Washington, D.C. 20230. Telephone: (202) 967-5111.

Related programs: 11.302, Economic Development-Planning Assistance 22.001, Intergovernmental Relations Advisory Service; 23.009, Appalachian Local Development District Assistance.

COASTAL PLAINS REGIONAL ACTION PLANNING COMMISSION

28.001 COASTAL PLAINS REGIONAL ECONOMIC DEVELOPMENT (GRANT-IN-AID SUPPLEMENTS)

FEDERAL AGENCY: COASTAL PLAINS REGIONAL COMMISSION

Authorization: Public Works and Economic Development Act of 1965; Public Law 89-136 as amended by Public Law 90-103, and Public Law 91-123: 42 U.S.C. 3188a.

Objectives: To enable States and other entities to take maximum advantage of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land.

Types of assistance: Project Grants.

Uses and use restrictions: Grant-in-aid supplements provide a portion of the local share of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land when the community, because of its economic situation, cannot supply the matching share. Total Federal assistance cannot exceed 80 percent of eligible project cost. When the basic grant agency certifies that the proposed project could be funded if funds were available, the commission may provide all or any portion of the basic Federal contribution.

Eligibility requirements

Applicant Eligibility: State and other entities within the region (generally any political subdivision or private or public nonprofit organization). Designated counties within the States of Georgia, North Carolina and South Carolina.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: Copy of basic grant application, plus CPRC application, including statement of regional significance.

Application and award process

Preapplication Coordination: Through Governor's representative for CPRC affairs.

Application Procedures: Apply for basic Federal grant-in-aid with appropriate Federal Agency and obtain determination of distribution of Federal and local share of project financing. Project application must be approved by Governor of

State in which the project is located. Applicant applies through the Governor's Office for Commission assistance to meet with local share requirements. Upon State approval, the Commission considers and determines level of participation in project.

Award Procedure: Commission notifies applicant. Federal co-chairman notifies basic grant agency of Commission's approval to assist. Basic grant agency makes award of basic grant according to its own awarding procedures.

Deadlines: None.

Range of Approval/Disapproval Time: 15 to 60 days.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Total Federal assistance cannot exceed 80 percent of eligible project costs. The State or community must finance the remaining project costs, not less than 20 percent.

Length and Time Passing of Assistance: In the event that the work intended to be financed by a supplementary grant is not completed or committed by contract within 18 months after the date thereof, the commission reserves the right at the Federal co-chairman's option to terminate the supplementary grant and all obligations thereunder.

Post assistance requirements

Reports: As required by basic grant agency.

Audits: All records relating to the grant are subject to audit by the Regional Commission and by the Comptroller General of the United States, or other designee(s).

Records: As necessary for above-mentioned audit.

Financial information

Account Identification: 06-15-2100-0-1-507.

Obligations: (Grants) FY 70 $3,297,900; FY 71 est. $3,834,000; and FY 72 est. $4,049,000.

Range and Average of Financial Assistance: $36,000 to $654,000; $299,000.

Program accomplishments: In fiscal year 1970, 11 projects were funded.

Regulations, guidelines, and literature: CPRC Resolution No. 10, April 30, 1968; application for CPRC Supplemental grant; CPRC brochure.

Information contacts

Regional of Local Office: Federal co-chairman's Field Office, Federal Building, Lady Street, Columbia, South Carolina 29201. Telephone: (803) 253-8371, extension 274.

Headquarters Office: Coastal Plains Regional Commission, 2000 L Street, N.W., Room 414, Washington, D.C. 20036. Telephone: (202) 967-3753.

Related programs: 11.300, Economic Development-Grants and Loans for Public Works and Development Facilities; 11.301, Economic Development-Loans for Businesses and Development Companies; 23.001, Appalachian Regional Economic Dvelopment; 38.001, Four Corners Regional Economic Development; 48.001, New England Regional Economic Development; 52.001, Ozarks Regional Economic Development; 59.013, State and Local Development Company Loans; 63.001, Upper Great Lakes Regional Economic Development.

FOUR CORNERS REGIONAL ACTION PLANNING COMMISSION

38.001 FOUR CORNERS REGIONAL ECONOMIC DEVELOPMENT (GRANT-IN-AID SUPPLEMENTS)

FEDERAL AGENCY: FOUR CORNERS REGIONAL COMMISSION

Authorization: Public Works and Economic Development Act of 1965; Public Law 89-136 as amended by Public Law 90-103, and Public Law 91-123; 42 U.S.C. 3188a.

Objectives: To enable States and other entities to take maximum advantage of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land.

Types of Assistance: Project Grants.

Uses and use restrictions: Grant-in-aid supplements provide a portion of the local share of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land when the community, because of its economic situation, cannot supply the matching share. Total Federal assistance cannot exceed 80 percent of eligible project cost. When, in a given year, the basic grant agency has expended its program monies but is willing to certify that a specific project could be approved if funds were available, the Commission may provide all or any portion of the Federal contribution to that project.

Eligibility requirements

Applicant eligibility: State and other entities within the region (generally any political subdivision or private or public nonprofit organization). Designated counties within the States of Arizona, Colorado, New Mexico and Utah.

Beneficiary eligibility: Project must benefit one of public units described above, and not a single user.

Credentials/Documentation: Applicant must describe project fully, give a summary of the manner in which the project will be financed, provide a detailed economic justification for the proposal, and certify compliance with various statutory requirements of the program.

Application and award process

Preapplication coordination: Conference before formal application submission.

Application procedure: Apply for basic Federal grant-in-aid with appropriate Federal Agency and obtain determination of distribution of Federal and local share of project financing. Project application must be approved by Governor of State in which the project is located. Applicant applies through the Governor's Office for Commission assistance to meet with local share requirements. Upon State approval, the Commission considers and determines level of participation in project.

Award Procedure: Commission notifies applicant. Federal co-chairman notifies basic grant agency of Commission's approval to assist. Basic grant agency makes award of basic grant according to its own awarding procedures.

Deadlines: None.

Range of Approval/Disapproval Time: 60 days.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Total Federal assistance cannot exceed 80 percent of eligible project costs. The State or community must finance the remaining project costs, not less than 20 percent.

Length and Time Phasing of Assistance: In the event that the work intended to be financed by a supplementary grant shall not have been completed or committed by contract within 18 months after the date thereof, the commission reserves the right at the Federal co-chairman's option to terminate the supplementary grant and all obligations thereunder.

Post assistance requirements

Reports: As required by basic grant agency and the Commission.

Audits: All records relating to the grant are subject to audit by the Regional Commission and by the Comptroller General of the United States, of their designee(s).

Records: As necessary for above-mentioned audit.

Finance information

Account Identification: 06-15-2100-0-1-507.

Obligations: (Grants) FY 70 $2,595,000; FY 71 est $5,100,000; and FY 72 est $5,290,000.

Range and Average of Financial Assistance: $7,000 to $426,000; $83,700.

Program Accomplishments: In fiscal 1970, 37 projects were funded.

Regulations, Guidelines, and Literature: "Guidelines and Procedures- Four Corners Regional Commission Financial Assistance Program," by Four Corners Regional Commission Petroleum Plaza Building, Farmington, New Mexico 87401.

Information contacts

Regional or Local Office: Commission Headquarters, Four corners Regional Commission, Petroleum Plaza Building Farmington, New Mexico 87401, telephone: (505) 327-9626. State Alternates: Mr. Hawley Atkinson, Officer of the Governor, State Capitol, Phoenix, Arizona, telephone: (602) 271-4331; Mr. Dwight Neil, Department of Business Development, State Office Building, Denver, Colorado, telephone (303) 892-2350; Mr. Keith Dotson, State Planning Office, State Capitol, Santa Fe, New Mexico, telephone: (505) 827-2315; Mr. D. Howe Moffat, Industrial Promotion Commission, State Capitol, Salt Lake City, Utah, telephone: (801) 322-1137.

Headquarters Office: Commission Headquarters, Four Corners Regional Commission, Petroleum Plaza Building, Farmington, New Mexico 87401. Federal co-chairman's Office, Four Corners Regional Commission, Office of the Federal co-chairman, 1898 Commerce Building, Washington, D.C. 20230. Telephone: (202) 967-5534.

Related Programs: 11.300, Economic Development-Grants and Loans for Public Works and Development Facilities; 11.301, Economic Development-Loans for Businesses and Development Companies; 23.001, Appalachian Regional Economics Development; 28.001, Coastal Plains Regional Economic Development; 48.001, New England Regional Economic Development; 52.001, Ozarks Regional Economic Development; 59.013, State and Local Development Company Loans; 63.001, Upper Great Lakes Regional Economic Development.

NEW ENGLAND REGIONAL ACTION PLANNING COMMISSION

48.001 NEW ENGLAND REGIONAL ECONOMIC DEVELOPMENT (GRANT-IN-AID SUPPLEMENTS)

FEDERAL AGENCY: NEW ENGLAND REGIONAL COMMISSION

Authorization: Public Works and Economic Development Act of 1965; Public Law 89-136 as amended by Public Law 90-103, and Public Law 91-123; U.S.C. 3188a.

Objectives: To enable States and other entities to take maximum advantage of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land.

Types of assistance: Project Grants.

Uses and use restrictions: Grant-in-aid supplements provide a portion of the local share of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land when the community, because of its economic situation cannot supply the matching share. Total Federal assistance cannot exceed 80 percent of eligible project cost. When the basic grant agency certifies that the proposed project could be funded if funds were available, the commission may provide all or any portion of the basic Federal contribution.

Eligibility requirements:

Applicant Eligibility: States and other entities within the region (generally any political subdivision of private or public nonprofit organization). The New England Region covers the States of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: None.

Application and award process

Preapplication Coordination: Not applicable.

Application Procedure: Apply for basic Federal grant-in-aid with appropriate Federal Agency and obtain determination of distribution of Federal and local share or project financing. Project aplication must be approved by Governor of State in which the project is located. Applicant applies through the Governor's Office for Commission assistance to meet with local share requirements. Upon State approvâl, the Commission considers and determines level of participation in project.

Award Procedure: Commission notifies applicant. Federal co-chairman notifies basic grant agency of Commission's approval to assist. Basic grant agency makes award of basic grant according to its own awarding procedures. Notification of award is made to the designated State Central Information Reception Agency (SF 240).

Deadlines: None.

Range of Approval/Disapproval Time: 30 to 90 days.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Total Federal assistance cannot exceed 80 percent of eligible project costs. The State of community must finance the remaining project costs, not less than 20 percent.

Length and Time Phasing of Assistance: In the event that the work intended to be financed by a supplementary grant shall not have been completed or committed by contract within 18 months after the date thereof, the commission reserves the right at the Federal co-chairman's option to terminate the supplementary grant and all obligations thereunder.

Post assistance requirements

Reports: As required by basic grant agency.

Audits: All records relating to the grant are subject to audit by the regional commission and by the Comptroller General of the United States, or their designee(s).

Records: As necessary for above-mentioned audit.

Financial information

Account Identification: 06–15–2100–0–1–507.

Obligations: (Grant) FY 70 $2,871,101; FY 71 est $2,050,000; and FY 72 est $2,285,000.

Range and Average of Financial Assistance: $13,000 to $368,000; $151,100.

Program accomplishments: In fiscal year 1970, 25 projects were funded.

Regulations, guidelines, and literature: "Annual Report," "Regional Development Plan," "Monthly Highlights."

Information contacts

Regional or Local Office: Office of the Federal co-chairman, New England Regional Commission, 55 Court Street, Boston, Massachusetts 02108. Telephone: (617) 223–6045.

Headquarters Office: Office of the Federal co-chairman, New England Regional Commission, Room 2606, Main Commerce Building, Washington, D.C. 20230. Telephone: (202) 967–4343.

Related programs: 11.300, Economic Development-Grants and Loans for Public Works and Development Facilities; 11.301, Economic Development—Loans for Business and Development Companies; 23.001, Appalachian Regional Economic Development; 28.001, Coastal Plains Regional Economic Development; 38.001, Four Corners Regional Economic Development; 52.001, Ozarks Regional Economic Development; 59.013, State and Local Development Company Loans; 63.001, Upper Great Lakes Regional Development.

Ozarks Regional Action Planning Commission

52.001 OZARKS REGIONAL ECONOMIC DEVELOPMENT (GRANT-IN-AID SUPPLEMENTS)

FEDERAL AGENCY: OZARKS REGIONAL COMMISSION

Authorization: Public Works and Economic Development Act of 1965; Public Law 89–136 as amended by Public Law 90–103, and Public Law 91–123; U.S.C. 3188a.

Objectives: To enable States and other entities to take maximum advantage of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land for economic development.

Types of assistance: Project Grants.

Uses and use restrictions: Grant-in-aid supplements provide a portion of the local share of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land when the community, because of its economic situation, cannot supply the matching share. Total Federal assistance cannot exceed 80 percent of eligible project cost. When the basic grant agency certifies that the proposed project could be funded if funds were available, the commission may provide all or any portion of the basic Federal contribution.

Eligibility requirements

Applicant Eligibility: States and other entities within the region (generally any political subdivision or private or public nonprofit organizations). Designated counties within the States of Arkansas, Kansas, Missouri and Oklahoma.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: Application acceptable to a Federal basic grant-in-aid agency.

Application and award process

Preapplication Coordination: Applications for aid must be coordinated with the Governor's Ozarks Alternate in each state and the Ozarks Commission liaison officer in each state.

Application Procedure: Apply for basic Federal grant-in-aid with appropriate Federal Agency and obtain determination of distribution of Federal and local share of project financing. Project application must be approved by Governor of State in which the project is located. Applicant applies through the Governor's Office for Commission assistance to meet with local share requirements. Upon State approval, the Commission considers and determines level of participation in project.

Award Procedure: Commission notifies applicant. Federal co-chairman notifies basic grant agency of Commission's approval to assist. Basic grant agency makes award of basic grant according to its own awarding procedures. Notification of award is made to the designated State Central Information Reception Agency (SF240).

Deadlines: None.

Range of Approval/Disapproval Time: 3 months.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Total Federal assistance cannot exceed 80 percent of eligible project costs. The State or community must finance the remaining project costs, not less than 20 percent.

Length and Time Phasing of Assistance: In the event that the work intended to be financed by a supplementary grant shall not have been completed or committed by contract within 18 months after the date thereof, the commission reserves the right at the Federal co-chairman's option to terminate the supplementary grant and all obligations thereunder.

Post assistance requirements

Reports: As required by basic grant agency and the Commission.

Audits: All records relating to the grant are subject to audit by the regional commission and by the Comptroller General of the United States, or their designee(s).

Records: As necessary for above mentioned audits.

Financial information

Account Identification: 06-15-2100-0-1-507.

Obligations: (Grants) FY 70 $4,980,000; FY 71 est $6,670,000; and FY 72 est $6,875,000.

Range and Average of Financial Assistance: $22,000 to $623,000; $191,400.

Program accomplishments: In fiscal year 1970, 103 projects were funded.

Regulations, guidelines, and literature: Procedures, guidelines and literature available from Commission office maintained above and from each State Liaison Officer.

Information contacts

Regional or Local Office: Ozarks Regional Commission, 125 Mart Building, Little Rock, Arkansas 72202, telephone: (501) 372-4361; Federal co-chairman's Field Office, 1601 West Okmulgee Street, Muskogee, Oklahoma 74401, telephone: (918) 683-3111.

Headquarters Office: Federal co-chairman's Office, Room 2099B, Department of Commerce Building, Washington, D.C. 20230. Telephone: (202) 967-2572.

Related programs: 11.300, Economic Development-Grants and Loans for Public Works and Development Facilities; 11.301, Economic Development-Loans for Business and Development Companies; 23.001, Appalachian Regional Economic Development; 28.001, Coastal Plains Regional Economic Development; 38.001, Four Corners Regional Economic Development; 48.001, New England Regional Economic Development; 59.013, State and Local Development Company Loans; 63.001, Upper Great Lakes Regional Economic Development.

UPPER GREAT LAKES REGIONAL ACTION PLANNING COMMISSION

63.001 UPPER GREAT LAKES REGIONAL ECONOMIC DEVELOPMENT (GRANT-IN-AID SUPPLEMENTS)

FEDERAL AGENCY: UPPER GREAT LAKES REGIONAL COMMISSION

Authorization: Public Works and Economic Development Act of 1965; Public Law 89–136 as amended by Public Law 90–103; and Public Law 91–123; U.S.C. 3188a.

Objectives: To enable States and other entities to taxe maximum advantage of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land for economic development.

Types of assistance: Project Grants.

Uses and use restrictions: Grant-in-aid supplements provide a portion of the local share of Federal grant-in-aid programs for the construction or equipping of facilities or the acquisition of land when the community, because of its economic situation, cannot supply the matching share. Total Federal assistance cannot exceed 80 percent of eligible project cost. When the basic grant agency certifies that the proposed project could be funded if funds were available, the Commission may provide all or any portion of the basic Federal contribution.

Eligibility requirements

Applicant Eligibility: States and other entities within the Region (generally any political subdivision or private or public nonprofit organization). Designated counties in Michigan, Minnesota, and Wisconsin.

Beneficiary Eligibility: Same as applicant eligibility.

Credentials/Documentation: Application acceptable to a Federal basic grant-in-aid agency.

Application and award process

Preapplication Coordination: Applications for aid must be coordinated with the basic grant agency through Governors Alternate in each State.

Application Procedure: Apply for basic Federal grant-in-aid with appropriate Federal Agency and obtain determination of distribution of Federal and local share of project financing. Project application must be approved by Governor of State in which the project is located. Applicant applies through the Governor's Office for Commission assistance to meet with local share requirements. Upon State approval, the Commission considers and determines level of participation in project.

Award Procedure: Commission notifies applicant. Federal co-chairman notifies basic grant agency of Commission's approval to assist. Basic grant agency makes award of basic grant according to its own awarding procedures. Notification of award is made to the designated State Central Information. Reception Agency (SF 240).

Deadlines: None.

Range of Approval/Disapproval Time: 3 months.

Appeals: None.

Renewals: None.

Assistance considerations

Formula and Matching Requirements: Total Federal assistance cannot exceed 80 percent of eligible project costs. The State or community must finance the remaining project costs, not less than 20 percent.

Length and Time Phasing of Assistance: In the event that the work intended to be financed by a supplementary grant shall not have been completed or committed by contract within 18 months after the date thereof, the Commission reserves the right at the Federal co-chairman's option to terminate the supplementary grant and all obligations thereunder.

Post assistance requirements

Reports: As required by basic grant agency and by the Commission.

Audits: All records relating to the grant are subject to audit by the regional Commission and by the Comptroller General of the United States, or their designee(s).

Records: As necessary for above-mentioned audit.

Financial information

Account Identification: 06-15-2100-0-1-507.

Obligations: (Grants) FY 70 $3,715,898; FY 71 est $5,925,000; and FY 72 est $6,1500,000.

Range and Average of Financial Assistance: $3,000 to $600,000; $64,000.

Program accomplishments: In fiscal year 1970, 62 supplemental grant-in-aid and 25 research and demonstration projects were funded.

Regulations, guidelines, and literature: Program guidelines available from Commission offices and offices of State Alternates.

Information contacts

Regional or Local Office: Upper Great Lakes Regional Commission, 504 Christie Building, 120 North Fourth Avenue West, Duluth, Minnesota 55802. Telephone: (218) 727-6458.

Headquarters Office: Office of the Federal co-chairman, Upper Great Lakes Regional Commission, Room 2093, Department of Commerce Building, Washington, D.C. 20230. Telephone: (202) 967-2845.

Related programs: 11.300, Economic Development—Grants and Loans for Public Works and Development Facilities; 11.301, Economic Development—Loans for Business and Development Companies; 23.001, Appalachian Regional Economic Development; 28.001, Coastal Plains Regional Economic Development; 38.001, Four Corners Regional Economic Development; 43.001, New England Regional Economic Development; 52.001, Ozarks Regional Economic Development; 59.013, State and Local Development Company Loans.

U.S. DEPARTMENT OF COMMERCE ECONOMIC DEVELOPMENT ASSISTANCE PROGRAMS—EXPENDITURES IN AREAS OUTSIDE SMSA'S

Program	Number of projects (estimate) ti	Fiscal year 1970 obligans(estimate)
Economic Development Administration:		
Warrants and loans for development facilities	270	$142,672,866
Business loans	30	33,841,555
Working capital guarantees	1	782,242
Planning grants	124	5,221,022
Technical assistance	77	1,592,748
Title V Regional Commission program: Supplemental grants for development facilities	134	12,720,208
Total	636	196,830,641

RURAL DEVELOPMENT

TUESDAY, SEPTEMBER 21, 1971

U.S. Senate,
Subcommittee on Rural Development
of the Committee on Agriculture and Forestry,
Washington, D.C.

The committee met, pursuant to recess, at 9:05 o'clock a.m. in room 324, Old Senate Office Building, Hon. James B. Allen, presiding.

Present: Senators Allen, Talmadge, and Dole.

Senator Allen. The committee will please come to order.

There is a quorum of the subcommittee present. And we will proceed with the hearing.

Senator Humphrey, chairman of the subcommittee, is unable to be here today. He will preside at other hearings of the subcommittee that have been scheduled. But he has asked that for today I preside at the hearings.

STATEMENT OF HON. JAMES B. ALLEN, A U.S. SENATOR FROM THE STATE OF ALABAMA

Senator Allen. Today we begin the second hearing on S. 2223, the proposed Consolidated Farm and Rural Development Act by Senator Herman Talmadge, Senator Hubert Humphrey, and others, and Amendment 153 originally proposed by Senator James Pearson of Kansas to be added to the Farm Credit Act.

Both pieces of legislation are very similar, proposing to infuse credit dollars into what is clearly a depressed rural economy in this country.

The authors of both pieces of legislation have indicated strongly that they are willing to accept improvements of their bills, and a considerable effort has been made by the staff of the Agriculture Committee to seek suggestions for improvement for all of the potentially interested parties.

At this subcommittee's field hearings in Alabama, Probate Judge Conrad Fowler of Shelby County told us:

> Our continuing dependence on property taxes and consumer taxes insures that our ability to deliver services to the local level will lag far behind the needs of our citizens.

Judge Fowler went on to say:

> Local governments need to be relieved of the necessity of providing large sums in a matching arrangement to get federal funds for local projects.
>
> Local officials need to have their discretion on local needs untied from the categorical grant vehicle.

Judge Fowler, who is president of the Association of County Commissioners of Alabama went on to support the idea of general revenue sharing, but the general tenor of what he had to say was that the Federal Government needs to be more responsive to local people, and most important, local people would prefer to help themselves if at all possible.

And I think that is the point of these two pieces of legislation.

In rural America there is a definite need to develop new industry. The South is living proof of this. The Southern States, long at the bottom of the American economic ladder, have worked hard to develop new industrial sources of income. These efforts are now paying off. Recent census bureau figures show that the Southeast is the fastest growing portion of the country.

But it will take more than new industry to revitalize rural areas. Small towns without adequate roads, medical care, water, sewers and other community facilities, have nothing to offer prospective industrial developers. And as we know, there are literally thousands of communities which have been waiting in the Federal line for years to have loan and grant applications approved.

Sixty-five percent of all of the Nation's substandard housing is in the countryside, yet in many areas, home buyers must put up 40 percent of the cost of a new home before they can buy.

Obviously there are great, unmet credit needs in rural America.

Recent research indicates that much of the potential investment capital now generated in rural areas is not reinvested there, but leaves the small towns for the major money markets for investment elsewhere.

It's the reverse of the Old Robin Hood theory. We are robbing the poor to help the rich. That doesn't make much sense to me.

Today we begin 4 days of hearings on these two proposals. We are attempting to get the views of all of those concerned. Hopefully, out of these proceedings we can make a beginning that will promote a balanced growth and stop the interminable migration of people from Countryside, U.S.A. to the major cities—people who are moving, not because they want to leave their homes but because economic circumstances force them to migrate.

Our first witness will be Mr. Stanley W. Dreyer, accompanied by Mr. Glenn Fox.

Do Mr. Dreyer and Mr. Fox both plan to testify?

STATEMENT OF STANLEY W. DREYER, PRESIDENT, COOPERATIVE LEAGUE OF THE U.S.A., CHICAGO, ILL.

Mr. **Dreyer**. Mr. Fox is here to confer on any questions that you may have.

Senator **Allen**. Very well. You may proceed.

Mr. **Dreyer**. Thank you, Mr. Chairman. We do have prepared testimony, as you may be aware.

My name is Stanley Dreyer, I am president of the Cooperative of the United States. I was born and raised on a farm in Colorado and received a master's degree in agricultural economics. For 7 years I worked with the St. Paul Bank for Cooperatives, so I have a little bit of experience in some of the problems of rural America and in the lending operations related thereto, especially as it relates to cooperatives.

We appreciate this opportunity to discuss with you the proposed legislation, which, if enacted, I think, would really reverse the trends which have plagued rural America for so many years—the loss of hope for the good life which has been brought about through the loss of opportunity as you mentioned in your opening remarks.

The Cooperative League is a national federation of cooperatives interested in self help solutions. And our league members represent over 20 million families in rural and urban America serving a variety of needs. And as a national organization we are also engaged in efforts to bring about sound cooperative development.

Throughout our society I think there is a deep basic need for self help, for mutual aid, and for ways to develop meaningful ownership among people and real participation in controlling their communities and their destinies, as you mentioned in your opening remarks.

What they are seeking, Mr. Chairman, I think is the tonic effect of shared experiences.

We are made especially aware of this concern through over 125 requests for technical assistance and financing resources which our office receives each month from people who have discovered that maybe in the cooperative concept, the cooperative technique, there is a possibility for them to resolve some of their own problems.

Smaller rural towns lose their people because they do not have the resources for redevelopment. And this fact I think is strikingly brought to our attention in a recent television documentary on rural America, when it was reported that the legislature of the State of North Carolina recently just wiped off the map some 96 towns in that State. And that is a telling statistic.

Self help is American tradition. We see examples of mutual aid self help throughout our history. And there is a renewed interest in self help enterprise taking place in our country today.

The cooperatives are the essence of self help. And self help, both economic and social, I think, should be encouraged by this government. It is in the best of American traditions. And we believe that the passage of this Consolidated Farm and Rural Development Act is a way to do this. And such an agency would give confidence, it would bring guidance and encouragement for new projects in the self-help area, as well as accelerate growth of those already in existence.

We would presume that the policies and the administration of the bank would permit lending with courage, and yet with reasonable assurance, of course, that terms for repayment would be met. Certainly the capital augmentation feature of this bill will encourage such a dynamic posture on the part of this new agency.

The very creation of this credit system would give assurance to lending institutions across the country that their initial loans may be supplemented by an additional financial input. And its existence among other things would tend to create a positive attitude in those with responsibilities and hopefully those seeking opportunity in rural America.

We believe that this committee will recognize as we do that technical assistance or business know-how and sound financing are the critical elements in the success of any business enterprise.

Every experience we have had indicates strongly that any financial institution working with newly developing cooperatives—and I am sure other businesses—must have resources available to provide managerial and technical assistance and even seed money for studies on economic viability. And I think the Small Business Administration has had some experience with that.

Not all cooperatives, Mr. Chairman, which provide services to rural America, rural people, are able to borrow from Farm Credit or the Farmers Home Administration. And we are pleased to see that under this act financial and technical assistance would be available to cooperatives unable to borrow from other sources. One of the major benefits to be derived from an understanding and sympathetic lender is the counsel and advice that he can package with the money he lets the borrower have. So technical assistance will be, we think, the critical factor in the mix needed to make this a truly innovative program with which to attack the economic development problems of rural America.

Adequate technical assistance, ranging from the initial organization to staff training, accounting and management, must be provided and closely coordinated with the lending process. We are pleased to see that provisions for this type of assistance in the federal rural development credit agency proposed in the legislation.

While the proposed legislation would be helpful in its present form, we feel it can be made to serve America in even more effective ways with a few additions or alterations. And I would like to read these specifically.

Not all such technical assistance should be, or, from a practical standpoint, could be provided directly by the bank. Such Government agencies, for example, as the Farmer Cooperative Service and the Cooperative Extension Service of the USDA might be authorized to contract for services from the bank which in their and the bank's judgment would be more economic or more effective in the long run. And we would therefore like to propose, Mr. Chairman, that there be added a subsection to section 710 of the bill to read somewhat as follows:

> To further carry out the purposes of this Act there shall be appropriated annually $6,000,000 which the Agency may allocate to appropriate Federal Agencies or private institutions for expenditures directly or by contract for research and study on economic and social viability, assistance in organizing businesses, including cooperatives, and to conduct leadership and management development training and orientation programs, either on their own or jointly.

Because of the changing nature of health care delivery, we would suggest the substitution of the words "health care facilities" for the word "hospitals" in section 710(4)(A).

On the subject of administration, we are pleased to see that the bill recognizes the importance of the broad interests of the nation and the economic interests in rural development when it sets forth the qualifications the President shall consider in the appointment of the Federal Rural Development Credit Board. Such representation will help bring about at the Federal board level an awareness of the problems and opportunities for coordinated efforts important in the revitalization of rural America.

Next, following the conventional method used by most businesses we would suggest that in section 611 possibly the board of directors should approve rather than appoint officers and executive employees other than the president of the bank. And with various references made in 611.

Various references are made in section 611 to Board nominees having to be legal residents of rural areas within which the bank is authorized to operate. We believe that rural America does have leadership which could be capable of governing the affairs of the respective institutions. But do we, however, wish to preclude in all cases the election or appointment of someone with a particular background or training who may be resident in a nonrural area? This is a question I would simply raise to the committee.

AUGMENTATION PAYMENTS

We realize that equalization payments are grants which should facilitate rural development and not detract from services being rendered on an efficient basis. What we seek to avoid is unfair competition. But the attack on unfair competition is one which can be carried to extremes and we would therefore suggest that in section 805(b) (5), we add the word substantial to that section so it would read: "The project to be financed will not be in substantial direct competition with another such project that is wholly financed by private enterprise."

The interest supplements and capital augmentation payments are extremely valuable components to this legislation and to any program to release rural Americans from the historic handicaps of providing services where there is a lower density of population. Such payments tied in with sound technical assistance would help those of limited income to develop economically viable units of service in order to help them survive in the rural communities rather than to be driven into urban centers. The long-range net cost—both socially and economically—of such interest supplements and capital augmentation payments would be less to revitalize rural communities than to tackle the problems resulting from the flight of poor rural people to urban centers.

On the subject of capitalization. We are concerned about certain capital stock and voting provisions of section 504. Subsection (b) of section 504 provides that each borrower or participant may purchase stock in the credit agency and that each holder of voting stock shall be entitled to one vote for each such share. We sincerely hope, however, that some consideration may be given to reducing the threat of a concentration of power in the hands of a few major borrowers or participating institutions.

This might be accomplished by limiting the number of votes of any one stockholder. (In the banks for cooperatives system, each borrower, irrespective of the size of his loan or investment, has one vote.) A second method is to rule out proxy voting or place a ceiling on proxy voting to perhaps no more than five proxy votes per person or a small percentage of the total votes cast. The preferred language we would suggest would be to add to the last line of subsection (b) of section 504, the following words:

"Proxy voting is not authorized but written absentee votes on specific questions is permitted." We would also suggest that the sentence halfway through subsection (d) in section 504 which reads, "The holders of such preferred stock shall be entitled to one vote in person, for each share of stock held" might read as follows: "The holders of such stock shall not be entitled to vote."

We would like to suggest that in subsection (1) of section 616, that each regional bank shall have the power to borrow from or loan money to not only any other regional banks but farm credit banks as well.

It is proposed that the regional bank be capitalized at up to $2 billion over a 10-year period. This plus their reserves would serve as a base for the sale of $40 billion of long-term obligations. We have some concern that one segment of the eligible borrowers—namely, the States and local governments, could absorb substantial amounts of the loan funds. Housing needs, which are so very critical in rural areas, likewise could use a major portion of the funds. Therefore, some statement should be included in the bill (at the end of section 506) providing that every effort shall be made to allocate equitably the bank's loans and services between types of potential users.

The authors of this imaginative legislation have proposed that investments in the credit agencies be related to a percentage of the outstanding loan. There are, I am sure, good reasons for such an approach. For one thing, it would bring earlier capitalization to the bank. This was true in the earlier days of the banks for cooperatives. Subsequently, stock acquisitions in the banks for cooperatives were converted to purchases of stock in relation to the amount of interest which is purchased as the quarterly interest payments are made. To do otherwise is to place an unfair burden upon the borrower who retires a loan and reborrows later. Should the committee care to explore this alternate method of raising capital from the borrowers, we would be happy to furnish appropriate suggested amendments.

In section 606, "Eligibility," we are pleased to see the specific designation of cooperatives as one of the business type borrowers eligible to use the services of the district rural development credit agencies. We have a question, however, concerning the domicile of principal office of the institution which is eligible to borrow. For example, can a firm which is headquartered in an urban center but serving principally a rural market area be eligible to use the services of the regional credit agencies? We would feel that such institutions should be eligible to borrow if it can be determined that a majority of their business is done in rural areas.

In conclusion, one imperative in meeting the total financing needs of rural America is the development of the finest possible coordination between the farm credit system and other programs serving rural America. We believe that the great emphasis on coordination through the Governor of farm credit will minimize any conflicts or duplication which might develop in the future.

Many segments of our society are having great problems and a great many of them can be traced back to the lack of opportunity in rural areas. The redeeming social and economic values of this act should not be underestimated. The financial resources which this act develops will provide this Nation with a more optimistic attitude about implementing the possibilities of rural development. The credit instruments and technical assistance aid to be provided under this act should bring increased credit services more equitably to all people, governments and businesses which are worthy.

The potentials of this bill remind one of what happened when financial resources were made available to the people of rural America for rural electrification. Some people said it was uneconomical or that rural people wouldn't take to electrification. But the people organized their need for electricity in a self-help manner, funding was provided and the rest of this success story is known to you. The crisis in rural America would have come much sooner had it not been for rural electrification. The same type of financial resources need to be made available to the people of rural America to solve some of their other critical problems. This bill comes farther in providing such an instrumentality than any now pending. In the interest of of social and economic advancement, some losses, of course, will occur. We would assume, however, that through a program of sound technical assistance these would be minimized.

We commend the authors and sponsors of this legislation. In our testimony, we have not attempted to laud various facets of the bill which, I am sure, are readily apparent to thoughtful persons cognizant of rural community needs.

Thank you for the privilege of appearing before you to share our views on behalf of the Cooperative League of the U.S.A.

(The prepared statement of Mr. Dreyer is as follows:)

Mr. Dreyer, Mr. Chairman and Members of the Committee:

My name is Stanley W. Dreyer. I am Predident of the Cooperative League of the U.S.A. I was born and raised on a farm in Colorado and received a master's degree in Agricultural Economics from the University of Minnesota. Before coming to the Cooperative League, I worked for seven years with the St. Paul Bank for Cooperatives as a Business Analyst and Assistant Vice President. It is my privilege to serve currently as a member of the Secretary of Agriculture's Cooperative Advisory Committee. Among other responsibilities, I am a member of the Board of the Inter-American Cooperative Finance Development Institute.

We appreciate this opportunity to discuss with you the proposed legislation S.2223 which, if enacted, would help to reverse the trends which have plagued rural America for so many years—the loss of hope for the good life, through loss of opportunity.

The Cooperative League of the U.S.A. is a national federation of cooperatives interested in self-help solutions to economic and social problems of our nation. The League's members represent directly and indirectly 20 million families in rural and urban America. Though our resources are limited, we are also engaged in efforts to help bring about sound cooperative development.

These member organizations provide credit union, agricultural, housing, insurance, consumer goods, health and electric service. As such, the Cooperative League is a sensitive sounding board for people's needs furnished through cooperatives.

Throughout our society, rural and urban, low income and middle income, minorities and majorities—there is the deep basic need for self-help, for mutual aid, for ways to develop meaningful ownership among people and real participation in controlling their communities and their destinies. What they are seeking, Mr. Chairman, is the tonic effect of shared experiences.

We are made especially aware of this concern through over 125 requests for technical assistance and financial resources which we receive each month from groups interested in cooperative development.

Individuals, throughout our society, are increasingly "lost" in the cities and suburbs with no sense of belonging or of participation. And smaller rural towns lose their people because they do not have the resources for self-help redevelopment.

This fact was strikingly brought to our attention in a recent television documentary on rural America when it was reported that the legislature of the State of North Carolina recently "wiped off the map" some 96 towns in that State.

Self-help is an American tradition. We see examples of mutual aid self-help throughout our history, from barn raisings and husking bees to volunteer fire departments. A renewed interest in self-help enterprise is taking place in our country today although it is taking forms Norman Rockwell would not recognize.

Cooperatives are the essence of self-help. Self-help projects, both economic and social, should be encouraged by this government, and we believe the passage of the Consolidated Farm and Rural Development Act is a way to do this. Such an agency, properly administered, would give confidence, guidance and encouragement for new projects in the self-help area as well as accelerate growth of those already in existence. To the extent that it gives people more strength in the marketplace, reduces waste or cost, not only do the participants benefit but the nation is strengthened as well.

We would presume the policies and administration of the Bank would permit lending with courage, and yet with reasonable assurance that terms for repayment would be met. Certainly the capital augmentation feature of this bill will encourage such a dynamic posture.

The very creation of this credit system would give assurance to lending institutions across the country that their initial loans may be supplemented by an additional financial input. Thus, the System may trigger more private financing in areas of greatest need. Its existence among other things would tend to create a positive attitude in those with responsibility and those seeking opportunity in Rural America.

TECHNICAL ASSISTANCE NEEDED

We believe this committee recognizes, as we do, that technical assistance and sound financing are the critical elements in the success of any business enterprise, especially those of small and medium size. Every experience we have had indicates strongly that any financial institution working with newly developing cooperatives must have resources available to provide managerial and technical assistance and even seed money for studies on economic viability.

While most agricultural cooperatives have available for their use the Bank for Cooperatives of the Farm Credit System, not all cooperatives providing services to rural people are able to borrow from Farm Credit or even the Farmers Home Administration. We are pleased to see that under this Act financial and technical assistance would be available to cooperatives unable to borrow from other sources. This factor alone will encourage people to help themselves and thereby maintain more vitality in rural communities.

Equally, if not more important than collateral or loan agreement provisions for any marginal loan or a loan to a new enterprise, is the technical assistance or counsel the new undertaking may be able to obtain. One of the major benefits to be derived from an understanding and sympathetic lender is the counsel and advice he can package with the money he lets the borrower have.

Technical assistance will be, we think, the critical factor in the mix needed to make this a truly innovative program with which to attack the economic development problems of rural America.

Without question, a major factor in the success of the Banks for Cooperatives system is their provision of operations and financial counsel to their borrowers. Loan agreements to eligible organizations frequently establish requirements that make for sounder operation and more effective management. Sound feasibility studies are, of course, essential, but more than these are needed. It is well known that many of the failures of small business and self-help enterprises in this country are due to the absence of adequate technical assistance, ranging from initial organization to staff training, accounting and management. These must be provided for and closely coordinated with the lending process. Again, we are pleased to see provisions for this type of assistance in the Federal Rural Development Credit Agency.

While the the proposed legislation would be helpful in its present form, we feel it can be made to serve America in even more effective ways with a few additions or alterations.

Not all such technical assistance should be—or, a from practical standpoint, could be—provided directly by the Bank. Such government agencies, for example, as the Farmer Cooperative Service and the Cooperative Extension Service of the U.S. Department of Agriculture, might be authorized to contract for services from the Bank, which in their and the Bank's judgement, would be more economic or more effective in the long run. We would, therefore, like to propose that there be added a subsection (d) to Section 710 of the bill, to read somewhat as follows:

"To further carry out the purposes of this Act there shall be appropriated annually $6,000,000 which the Agency may allocate to appropriate Federal Agencies or private institutions for expenditures directly or by contract for research and study on economic and social viability, assistance in organizing businesses, including cooperatives, and to conduct leadership and management development training and orientation programs, either on their own or jointly."

Because of the changing nature of health care delivery, we would suggest the substitution of the words "health care facilities" for the word "hospitals" in Section 710(4)(A).

ADMINSTRATION

We are pleased to see that the bill recognizes the importance of the broad interests of the nation and the economic interests in rural development when it sets forth the qualifications the President shall consider in the appointment of the Federal Rural Development Credit Board. Such representation will help bring about at the Federal Board level an awareness of the problems and opportunities for coordinated efforts important in the revitalization of Rural America.

Following the conventional method used by most businesses, we would suggest that in Section 611 (g), possibly the Board of Directors should approve rather than appoint officers and executive employees other than the president of the Bank.

Various references are made in Section 611 to Board nominees having to be legal residents of the rural area within which the bank is authorized to operate. We believe rural America does have leadership which would be capable of governing the affairs of the respective institutions. Do we, however, wish to preclude in all cases the election or appointment of someone with a particular background or training who may be resident in a nonrural area (i.e., an officer of a commercial bank or Bank for Cooperatives located in an urban area)?

AUGMENTATION PAYMENTS

We realize that equalization payments are grants which should facilitate rural development and not detract from services being rendered on an efficient basis. What we seek to avoid is unfair competition. But the attack on unfair competition is one which can be carried to extremes and we would therefore suggest that in Section 805(b) (5), we add the word "substantial" to that section so it would read: "The project to be financed will not be in substantial direct competition with another such project that is wholly financed by private enterprise."

The interest supplements and capital augmentation payments are extremely valuable components to this legislation and to any program to release rural Americans from the historic handicaps of providing services where there is a lower density of population. Such payments tied in with sound technical assistance would help those of limited income to develop economically viable units of service in order to help them survive in the rural communities rather than to be driven into urban centers. The long-range net cost—both socially and economically—of such interest supplements and capital augmentation payments would be less to revitalize rural communities than to tackle the problems resulting from the flight of poor rural people to urban centers.

CAPITALIZATION

We are concerned about certain Capital Stock and voting provisions of Section 504. Subsection (b) of Section 504 provides that each borrower or participant may purchase stock in the Credit Agency and that each holder of voting stock shall be entitled to one vote for each such share. At this moment, we do not know the composition of the voting stockholders of the District Credit Agencies. We sincerely hope, however, that some consideration may be given to reducing the threat of a concentration of power in the hands of a few major borrowers or participating institutions. This might be accomplished by limiting the number of votes of any one stockholder. (In the Banks for Cooperatives system, each borrower, irrespective of the size of his loan or investment, has one vote.) A second method is to rule out proxy voting or place a ceiling on proxy voting to perhaps no more than 5 proxy votes per person or a small percentage of the total votes cast. The preferred language we would suggest would be to add to the last line of Subsection (b) of Section 504, the following words: "Proxy voting is not authorized but written absentee votes on specific questions is permitted." We would also suggest that the sentence halfway through subsection (d) in Section 504 which reads, "The holders of such preferred stock shall be entitled to one vote in person, for each share of stock held" might read as follows: "The holders of such stock shall not be entitled to vote."

We would like to suggest that in Subsection (1) of Section 616, that each Regional Bank shall have the power to borrow from or loan money to not only any other Regional Bank but Farm Credit Banks as well.

It is proposed that the Regional Bank be capitalized at up to $2 billion over a 10-year period. This plus their reserves would serve as a base for the sale of $40 billion of long-term obligations. We have some concern that one segment of the eligible borrowers—namely, the states and local governments—could absorb substantial amounts of the loan funds. Housing needs, which are so very critical in rural areas, likewise could use a major portion of the funds. Therefore, some statement should be included in the bill (at the end of Section 506) providing that every effort shall be made to allocate equitably the Bank's loans and services between types of potential users.

The authors of this imaginative legislation have proposed that investments in the Credit Agencies be related to a percentage of the outstanding loan. There are, I am sure, good reasons for such an approach. For one thing, it would bring earlier capitalization to the bank. This was true in the earlier days of the Banks for Cooperatives. Subsequently, stock acquisitions in the Banks for Cooperatives were converted to purchases of stock in relarion to the amount of interest which is purchased as the quarterly interest payments are made. To do otherwise is to place an unfair burden upon the borrower who retires a loan and reborrows later. Should the Committee care to explore this alternate method of raising capital from the borrowers, we would be happy to furnish appropriate suggested amendments.

In Section 606, "Eligibility," we are pleased to see the specific designation of cooperatives as one of the business type borrowers eligible to use the services of the District Rural Development Credit Agencies. We have a question, however, concerning the domicile of the principal office of the institution which is eligible to borrow. For example, can a firm which is headquartered in an urban center but servicing principally a rural market area be eligible to use the services of the Regional Credit Agencies? We would feel that such institutions should be eligible to borrow if it can be determined that a majority of their business is done

CONCLUSION

One imperative in meeting the total financing needs of rural America is the development of the finest possible coordination between the Farm Credit System and other programs servicing rural America. We believe that the great emphasis on coordination through the Governor of Farm Credit will minimize any conflicts or duplication which might develop in the future.

Many segments of our society are having great problems, and a great many of them can be traced back to the lack of opportunity in rural areas. The redeeming social and economic values of this Act should not be underestimated. The financial resources which this Act develops will provide this nation with a more optimistic attitude about implementing the possibilities of rural development. The credit instruments and technical assistance aid to be provided under this Act should bring increased credit services more equitably to all people, governments, and businesses which are worthy.

The potentials of this bill remind one of what happened when financial resources were made available to the people of rural America for rural electrification. Some people said it was uneconomical or that rural people wouldn't take to electrification. But the people organized their need for electricity in a self-help manner, funding was provided, and the rest of this success story is known to you. The crisis in rural America would have come much sooner had it not been for rural electrification. The same type of financial resources need to be made available to the people of rural America to solve some of their other critical problems. This bill comes the farthest in providing such an instrumentality as any now pending. In the interest of social and economic advancement, some losses, of course, will occur. We would assume, however, that through a program of sound technical assistance, these would be minimized.

We commend the authors and aponsors of this legislation. In our testimony, we have not attempted to laud the various facets of the bill which, I am sure, are readily apparent to thoughtful persons cognizant of rural community needs.

Thank you for the privilege of appearing before you to share our views on behalf of the Cooperative League of the U.S.A.

Mr. **Dreyer**. Prior to answering any questions, I will make an introduction of Mr. Fox.

Thank you.

Senator **Allen**. Thank you very much, Mr. Dreyer. We appreciate your coming before the committee and giving us the benefit of your views and speaking on behalf of the Cooperative League of the United States.

Mr. Fox, do you care to supplement Mr. Dreyer's testimony?

Mr. Fox. I believe I would rather participate in case there are questions.

Senator **Allen**. All right, sir, fine.

I would like to inquire as to just how membership in your league is obtained. Who goes to make up your league, Mr. Dreyer?

Mr. **Dryer**. We are a voluntary organization. There are about 24 businesses and national federations of cooperatives which belong to our organization, which, as I mentioned in my testimony, represent about 20 million people. And they are concerned with areas of credit union activity, agricultural affairs, housing, insurance, consumer goods, health, and electric service.

These organizations pay dues to the Cooperative League. We are an organization founded in 1916. And we have concerns about the cooperative concept and the cooperative education, and public information, and technical assistance, and new cooperative development on a sound basis. Being a voluntary membership, they are free to come and go as they wish.

And we do have in our membership the National Federation of Credit Unions, the National Rural Electric Cooperative Association, the National Association of Housing Cooperatives, and the Group Health Association of America.

Senator **Allen**. Yours is an association of associations rather than individuals, then?

Mr. **Dreyer**. Associations and businesses. We have a number of cooperative enterprises, also.

Senator **Allen**. Does this include public bodies as well?

Mr. **Dreyer**. No; just cooperative organizations.

Senator **Allen**. All private?

Mr. **Dreyer**. Yes.

Senator **Allen**. It would not cover, then rural electric cooperatives?

Mr. **Dreyer**. Rural electric cooperatives which are financed through REA loans are eligible to be members. And their national association is a member.

Senator **Allen**. They are public bodies, then?

Mr. **Dreyer**. The cooperatives themselves would be the self-help type ventures that I mentioned in my testimony. But they have benefited from public financing of the Rural Electrification Administration. And hopefully new enterprises in rural America would be helped in the same manner by this legislation which is here proposed.

Senator **Allen**. Would you anticipate, then, that many of your member cooperatives would be borrowers from the rural development credit bank?

Mr. **Dreyer**. One of our member organizations in Utah is going to be testifying before the committee the latter part of next week, I think. And they have some very specific needs that they and their borrowers have out there. We are particularly aware that in the more sparsely settled areas of the country of some cooperatives that do not now have a reliable source of credit. And we are compiling a catalog of these kinds of needs. If the committee would like to have such a catalog of specific local needs we can easily provide it.

And there are in some areas of the country some low-income cooperatives which I think would especially benefit by supplements, the augmentation payments that are provided for in this legislation. And low-income cooperatives, in that their members, are composed of low-income individuals, perhaps not all farmers so therefore they may not be eligible to borrow from Farmers Home. And because of the broad nature of this legislation permitting enterprises of all sorts in rural America to be eligible, this is one of our strong reasons for testifying in favor of this legislation.

Senator **Allen**. Do you feel that the mechanism of the bank is a sound approach?

Mr. **Dreyer**. I do. I feel this way particularly strongly because for 7 years I worked with the bank for cooperatives in St. Paul. And visiting with local cooperatives and such, I realized the tremendous leverage which a lending institution has and a lending system has to raise questions, to put in loan provisions which will make for a sound business operation, and which will enable the people themselves to determine more readily the feasibility of certain ventures. And I think when that common experience is not shared through a lending institution the odds for success go down. This way projects with no prospect of success can be nipped in the bud. And I think until you get that kind of philosohpy into an institution whose purpose is to aid in rural development, I don't think it is going any place.

Senator **Allen**. Do you feel that there is a field of operation for this proposed bank that is not now covered either by private capital or by the farm credit system?

Mr. **Dreyer**. Yes; I do. The lending restrictions for the bank for cooperatives and the farm credit system preclude a number of potential users or borrowers. The Farmers Home legislation, I think, is primarily related to agriculture. For example, in the State of Michigan a couple of years ago there was a study that said that over 40 percent of the people in rural areas were getting more than half of their income off of farms. And so if these people decided that they want to do something together, whether it is transportation to and from work or what have you, there is no really understanding sympathetic lender, you might say, to look after their needs. And as we become more and more urbanized and more nonfarmers live in rural areas, I think that the need for this kind of institution is going to continue, even more so than is already the case.

Senator **Allen**. You had some comments to make on the stock acquisition by borrowers, and you made a suggestion, I believe. Just explain that a little bit more fully, please.

Mr. **Dreyer**. Perhaps, Mr. Chairman, I am not totally cognizant of the implications of the control provisions as are envisioned by its authors. But eventually it is my understanding that we want this institution to be owned by the borrowers who use it, and participating institutions, which could be local banks or other credit institutions.

Now, as we looked at this situation—and Mr. Fox has had many, many years experience in agricultural credit and is well known and respected in cooperative financial circles—we felt that there were no provisions in the current proposed legislation which would preclude any one borrower from sort of getting a large number of votes. If he were a large borrower he might—I think it is one vote for each $5 share of stock—he might accumulate a very large number of votes, and outvote maybe 70 percent or 50 percent or whatever of all of the other stockholders who might be in any one State, area, or district. And we felt that it might not be in the best interests of rural American development if there was a concentration of votes in the hands of one or two institutions, whether they be participating institutions or some of the major borrowers.

For example, I just finished a trip around Lake Superior and saw quite a bit of the sparsely settled area. If a member organization, for example, up there got a loan from this institution—I am not sure that it would—but it might have such a large loan that it just might override in electing officials to the regional credit institution, it might override all the other smaller groups in small towns in that area. And so we were concerned that there not be a concentration of power in the hands of the few.

Senator **Allen**. That could be handled by putting a limit on the voting strength of any one borrower.

Mr. **Dreyer**. Yes.

Senator **Allen**. And you feel that that should be done?

Mr. **Dreyer**. Correct.

Senator **Allen**. Do you feel that this legislation might be an entrant for the creation of job opportunities in rural areas?

Mr. **Dreyer**. Indeed so. I think this is shown in one of the television documentaries that some of us saw. These high school graduates were saying that there was no opportunity here and they were going to go elsewhere. And our organization at the present time is engaged in a Department of Labor contract to train persons in rural areas. We are training about 220 people to work in new jobs and local cooperatives. And so we know about that kind of thing—the opportunities are there and the jobs are there if they can get training of the right sort when and where needed. And so from our own personal experience, and certainly if new jobs are provided, I think that there can be a measuring of some training programs that will enable people to do what I think they really want to do, and that is, stay near their kinfolk.

Senator **Allen**. Bringing it a little closer home, now, the cooperatives that you represent, can you envision activities on their part through the making of loans from the bank that would create job opportunities?

Mr. **Dreyer**. One of the problems in the current farm credit legislation is that cooperatives which serve nonfarmers to any major extent are really not eligible to borrow from the Farm Credit and the Bank for Cooperatives. And I think that this has really discouraged, Mr. Chairman, some cooperatives from going into services to serve rural people, because if they are going to become ineligible to borrow from the bank, that is a very serious thing in their minds. And so they are not progressive or aggressive, you might say, in this area. And so they are reluctant to move into these areas. And I think if there were an alternative source of credit, if they lost the eligibility to borrow from one, they could become eligible to borrow from another. I think this could be a tremendous spur to their innovative nature to serve the people living in their own communities. And some of them find that a number of their people are moving out of agriculture. And perhaps they are becoming less economic and less efficient, because they don't serve these people with the kinds of services that they need.

Glenn, do you have any comment?

STATEMENT OF GLENN S. FOX, FINANCE CONSULTANT, COOPERATIVE LEAGUE OF THE U.S.A., SHAWNEE MISSION, KANS.

Mr. Fox. I think you have made a very adequate statement, Mr. Dreyer.

I would like to comment that while we may not be in the same kind of a depression nationally that we were in 1933, many rural communities are in an economic depression or a squeeze that is a great deal like 1933. And I would like to call their attention to the fact that we have precedent for this kind of financing which helped us pull out of the 1933 depression. For example, the Agricultural Marketing Act of 1929 provided funds at low interest rates and long term. One of the first tasks I performed as extension marketing specialist at Kansas State University in 1933 and 1934 and 1935, that period, was to help organize or assist in the organization of, for example, apple growers associations to save the apple industry of that section of the country that had lost its packing sheds. Today we have strong institutions, cooperative institutions, handling those apples, for example, which came from orchards which might not even be there today had it not been for a Federal Farm Board fund loan, for example.

And incidentally, the one thing I remember about this loan is that the interest rate was seven-eighths of 1 percent. Now, we are not talking about seven-eighths of 1 percent interest in this particular bill, I am fully aware. I can't help but recall another side of that coin, though. When I was also assisting Roy Green, the first production credit corporation director for this Nation in 1933, 1934 and 1935, in that formative period, we were organizing production credit associations, one of the arms of the farm credit banks now, and a very fine series of institutions across the Nation here. And I remember one story Roy Green used to tell in the organization. He said, "I found southwest bankers"—he was talking about southwest of Kansas now in that instance—"I found southwest bankers loaning money at 10 percent interest per annum because it was easier to figure the interest rate."

Well, I call your attention to the fact that we are back to 10 percent interest in many rural areas at the present time, maybe not for that same reason. And I don't tell that little story to take any swat at the bankers, because many rural bankers are doing a fine service to rural communities.

On the other hand, no rural banker that I know of is in a position to make the long-term loans necessary to stop out migration in agriculture. I am talking about—well, let's take an irrigation ditch loan, for example. None of the rural bankers would make these 20 and 30 and maybe even 40 years loans for this very worthy purpose. And I only cite that as one example of the long term credit needs. The long term credit needs for concrete grain elevators, for example, are something that a demand deposit banker can't and maybe shouldn't try to handle—at least I want high liquidity in my demand deposit banker, I don't want him to tie up too much of his funds at least in these extremely long term loans.

Therefore this kind of a banking structure seems to me and seems to us to be very badly needed to take up a segment of rural America which is not now served at all.

Senator **ALLEN**. There is a definite field of operation, then, for this bank that is not provided for in the present farm credit system?

Mr. **FOX**. Mr. Chairman, you are exactly right in your implied answer. And the Cooperative League has made surveys, and as Mr. Dreyer said, it is in the process of updating those at the present time. And if you would like some of these specific examples filed with the committee, the Cooperative League would be glad to do that.

Senator **ALLEN**. We would like to have that information.

Mr. Dreyer, I would like to ask, in what way, if you recall, does the borrower stock acquisition provision for the Bank for Cooperatives differ from the borrowers stock acquisition provision for this bank?

Mr. **DREYER**. I mithg ask Mr. Fox to comment on that. I made some broad mention of it in my testimony.

Mr. **FOX**. To get a little more specific, the Bank for Cooperatives in its early days, from 1933, had a provision for stock accumulation for membership, a whole lot similar to that which is envisioned here: 5 percent of the amount of the loan was issued in the form of common stock, voting stock, in the Bank for Cooperatives. Over the years, it was found advisable to shift from that stock with relation to loans, and have the stock issued with relation to interest payments, mainly because of those associations which borrow maybe more than once a year, or maybe every 2 or 3 years, borrow and pay off, or even every 5 years, now, there could be a stock equalization framework in there. We rather favor the present policy of the Bank for Cooperatives, which is a payment for stock at the time you make your interest payment.

Now, in the Bank for Cooperatives, and in all other segments of the Farm Credit Banks, the stock control is on the basis of people rather than on the basis of investment, one-man, one-vote, one-borrower, one-vote, in the regional cooperative. The largest of the loans has one vote, just as the smallest of the borrowers has one vote.

Senator **ALLEN**. I think that you agree with the concept of working toward the goal of having this bank owned by the borrowers, just as the banks are in the Farm Credit System at the present.

Mr. **DREYER**. That is correct.

Mr. **FOX**. That is a good concept.

Senator **ALLEN**. And that is the concept of this bill.

Do you feel that the farm credit system has been a success? It is one of the outstanding success stories, is it not?

Mr. **DREYER**. Indeed it is.

Senator **ALLEN**. In the financial field?

Mr. **DREYER**. Indeed so. And I think an outstanding model which would be looked at in other countries of the world. And my only concern with it is that restrictions are such in the legislation—and we are not suggesting that they be changed at this moment—that they don't serve all cooperatives in rural America.

But I certainly do commend the Senate, Mr. Chairman, on the passage of the Farm Credit Act of 1971, because I think that it brings the Farm Credit System into a position where it is going to be able to serve a changing America better than it has heretofore.

Senator **Allen**. I notice here on page 8 of your statement, it is suggested that there be no vote for preferred stockholders on the issuance of additional preferred stock. What is your thought on not wishing the preferred stockholders to vote, or increasing the number of preferred stockholders, which would dilute the capital and increase liabilities?

Mr. **Dreyer**. I must admit, Mr. Chairman, that my references here might be somewhat out of order if I am not fully aware of who the preferred stockholders are. But I felt—could I ask a question of the committee?

Senator **Allen**. Yes, sir.

(Off the record.)

Mr. **Fox**. Mr. Chairman, I would observe that we are not very fussy about this section. However, as it is written conventionally in our cooperative organizations, the preferred stockholder gets returns on his investment, a fixed return more or less, and consequently because of that, he relinquishes control to the common stockholder, who is the real risk taker, and who gets no return very frequently on his investment.

Mr. **Dreyer**. Mr. Fox has spoken to the issue. It is just sort of foreign to our thinking, Mr. Chairman, that preferred stockholders ought to be given a vote in an organization of this sort. And whether one vote is sufficient for them to get the savings that would enable them to buy additional stock in the bank, I don't really know. I have been a very large stock buyer myself. But that would be foreign to our thinking. And we are wondering how one vote might be an incentive to purchase stock.

Senator **Allen**. Thank you for your suggestion on it.

Now, Mr. Fox, you were talking about the credit needs of rural America. They have escalated manifold in recent years, have they not?

Mr. **Fox**. There is no question about it. And any forecast would indicate that they will double again in this decade, perhaps.

Senator **Allen**. Now, with all due respect to the private sector of the financial institutions and the existing governmental institutions, these credit needs are not being fully met, are they?

Mr. **Fox**. This is true, in my opinion. They are not being fully met. And this isn't to criticize the present institutions that have been serving agriculture; they are simply gaps of unmet needs in agriculture in the area, largely of rural development, which is the title of this bill.

Let me comment further. It would be my opinion, too, that if this bill is enacted, the ASCS loans, for example, and the Farmers Home Administration loans might well be used for slightly different purposes, and still further enhance rural development, and agriculture conservation, and other programs that will help stop outmigration of agriculture and help relieve a little bit the unemployment situation in our cities.

Senator **Allen**. Yes.

Mr. **Dreyer**. May I make one additional observation?

When I worked for the Bank for Cooperatives, I traveled a great deal in North Dakota. And time after time we witnessed the fact that smalltown bankers left because the business wasn't there. And unless you have a field force of agents going out and seeking loans as we did in the Bank for Cooperatives, unless there are people out there looking at opportunities and working with the people, you aren't going to get those loans made. So with the withdrawal from rural America in many areas of the smalltown banker, there is no one really there to serve them, even if the local banker wanted to and he were there. I think that is one of the catastrophes of rural America, is that the former traditional financing institutions are no longer there because of the decrease in the population.

Mr. **Fox**. And their ability to serve goes up and down with the deposits. And the time when deposits are low may be the time when the needs for rural development are even doubled or quadrupled.

Senator **Allen**. If community services and job opportunities are made available in rural America, would we continue to have much problem with outmigration from rural areas to the urban centers of the country?

Mr. **Dreyer**. One of the very substantial services, I think, that the younger generation feels the need for, are health services and adequate schools. And as I go around this country time after time, I see signs across the street, a doctor needed in this community. And I think that is why there is a need of change in our health delivery system.

And so I think that one of the real kinds of community services that are needed is some sort of a unique pattern of health delivery care. And I think that this kind of institution would be the kind that would think in those imaginative terms. And so our current institutions certainly aren't thinking in those terms, and I don't know who would finance them, unless it is HUD in the present way. Housing is just pitiful.

And we just recently did a publication in our magazine of some of the problems that these rural people are facing in housing. And some of the rural electrics are doing something about this. But someone should think more imaginatively so that funds would be available for sewers, water, and things of this type.

Well, the clean air out there in the country is a wonderful thing to have. And there are many things in rural America which I think people would prefer over the concentration and the alienation in some of the major cities that they would find in moving from one kind of community to another. I just feel that if the job opportunity were there they would even commute quite a ways in order to live in their own community.

Senator **Allen**. As I stated at the outset, the authors of both pieces of legislation have no pride of authorship in the exact language or the exact provisions They are open to suggestions. You gentlemen have made some suggestions which I know the authors and the members of the subcommittee will be interested in studying. And I feel that we can profit by a consideration of these suggestions. You may rest assured that they will be carefully considered.

I do appreciate so much your coming and appearing before the committee.

Mr. **Dreyer**. Thank you, Mr. Chairman.

Senator **Allen**. Thank you, gentlemen.

(Additional information submitted by the Cooperative League of the U.S.A. is as follows:)

The Cooperative League receives more than 125 inquiries monthly seeking specific advice and assistance regarding cooperatives. These fall into 3 general areas relevant to this legislation, and brief examples of each follow:

1. Areas where a specific need exists for the type of self-help enterprise that would be made feasible by S. 2223:

Some 1,000 older residents of a Missouri area make craft products and market them individually from their homes, shopping centers or wherever they can find space. They seek funds to create a single efficient co-op outlet in a single location.

An Indian reservation in South Dakota also seeks a central outlet for craft products but lacks funds to build up an inventory. If the funds are available and the project succeeds, part of the proceeds will go toward supporting a museum and library.

In a Pennsylvania coal-mining area of low-income because of closed mines, people seek to form a cooperative store because no shopping facilities of any kind exist nearby.

A coalition of Mexican-American agencies in Texas is seeking to develop a co-op facility for food distribution in a two-country rural area but has no one specially trained in cooperative techniques to assist it.

A depressed area of North Dakota where at least half the adult population is without work is subject to "outrageous food prices". Community leadership seeks a cooperative solution.

In areas such as these, technical assistance over a long period for organization, planning, financing and other help is needed as well as operational financing that S. 2223 could provide.

2. More frequent are requests for specific additional technical help, advice and financing for cooperative and other self-help ventures that are already under way in a limited sense, but are not yet viable:

A food processing co-op in an Alaskan island community where fishing has been poor seeks financing for a laundromat and hotel. Its purpose is to stimulate employment rather than create savings, although food prices are also very high.

A community action council in Ohio has set up a co-op to buy fresh produce, canned goods and meats but lacks capital and experience to expand further.

Some 2,000 Georgian small farmers need decent housing and seek $100,000 to plan a small industrial, shopping center and health services development to create services and jobs. Residents who had left for cities are willing to return if this cooperative venture can be funded.

In Alabama, 200 families own a large tract of land where they raise cucumbers and tobacco. They have a credit union, and operate a thrift shop. They seek investment funds to expand vegetable production and go into beef and swine production if machinery and equipment is available also.

In Virginia, in a tobacco-raising area, some 600 low-income farmers received a private loan and OEO funds but the few middle-income farmers were barred from participation. They need an additional $30,000 annually for technical assistance and for transport facilities to create new jobs and community opportunities on a self-help basis.

From North Dakota through the upper Peninsula of Michigan, nearly 50 smaller (up to $500,000 annual volume) co-op retail enterprises have no federal financing source. These crossroads stores serve loyal membership in this sparsely-settled area but have been hard-pressed for years to keep in business because of inadequate volume and back-up capital. Most are in areas of economic depression and unemployment.

Likewise in New England, more than a dozen retail consumer goods cooperatives serving rural areas have no federal financing source and their financial position has been declining despite their joint ownership of a wholesaling organization.

In Montana, a group of rural families set up and has operated a bus transportation system on a co-op basis. Most of the owners are Indian families who lack background and knowledge of cooperative techniques. They seek to expand into other more productive areas than providing the bus service (despite need for this service) but lack technical means to do so.

In Alabama, a group of women have developed a sewing project whose products have been widely distributed but lack technical assistance and equipment to continue to expand their job-producing program, which has created their first major income.

In Mississippi, volunteers did much of the work to get a small store started serving rural people and paid a small refund at the end of the first year. Local financing got the store under way. However, to expand, the store needs new sources of finance to continue in business in addition to training funds and other technical assistance not now available.

3. Cooperatives in many cases have, by their own local resources from their own communities, gone into business and are hanging in and for time being, making a success. However, long-range financing and technical assistance is imperative.

A co-op craft business among Indian women in Michigan has created a source of income and jobs in an area where very little of either existed. One of the members also has promoted a house-building program, and a sand pit, camping and tourist area offers other economic resource possibilities. This is an outstanding self-help program put together with a variety of technical assistance—but none of the latter is any longer available. With such help this area could become self-supporting.

A depressed rural area in Wisconsin has established a small co-op creamery whose employees have received technical training to develop skills. This creamery resulted from a shift from an earlier, unsuccessful venture to a new product and services. Expansion of production of this new product is possible if additional financing can be arranged. A new source of employment would be readily created if this happened.

The Cooperative League on its own initiative has developed a bank of consultants in the fields of organization, planning, management, legal and accounting procedures. However, no funds are available from any source to pay for these consultants' work on a continuing basis. Each cooperative or self-help venture seeking to use their services must create its own source of funds to pay their expenses—often traveling from an urban area—to the site of the venture, and to maintain them and/or pay fees for the duration of their work. In most cases this work is short-lived because few of the consultants are able to stay in an area over an extended period.

Senator TALMADGE. Mr. Chairman, may I say a word?

Senator ALLEN. We would be delighted to hear from you, Mr. Chairman.

Senator TALMADGE. This is one of those days where I am supposed to be at three different places simultaneously, which as the chairman knows, is not unusual around here.

I want to take this opportunity to present to the committee my longtime friend and constituent, the distinguished Ivan Allen of Atlanta.

He has had a longtime record of distinguished civic service as president of the Atlanta Chamber of Commerce, and I believe also president of the State chamber of commerce.

He has been active in civic affairs in all areas of State responsibility.

He is an outstanding businessman and president of his firm at the present time, which does a very substantial business in the State of Georgia.

He served two terms as mayor of Atlanta, and he has been voluntarily retired. Atlanta is one of the fastest growing cities in our Nation percentagewise. And during that time he has been confronted with what is commonly referred to as the urban crisis, particularly that part which related to massive migration of people with few skills and limited knowledge to our urban areas.

Some of the ideas that I have had in trying to solve some of these problems are as a result of my conversations with Mayor Allen at the time he served as mayor of the city of Atlanta.

It is a pleasure to welcome him to our committee. And thank you, Mr. Chairman, for giving me this opportunity.

And if you will excuse me, Ivan, I have got to go back to a sugar conference.

Senator **Allen**. Thank you, Senator Talmadge. I appreciate your honoring us on the subcommittee with your presence. And I appreciate your introduction of Mayor Ivan Allen, Jr., whom we have known for many years, and who has certainly made an outstanding record as a community leader, and as mayor of one of our great metropolitan areas.

We are just delighted to have you come before the committee, Mayor Allen. We look forward to your testimony.

STATEMENT OF IVAN ALLEN, JR., ATLANTA, GA.

Mr. **Allen**. Thank you very much.

And may I express appreciation to Senator Talmadge for his generous introduction.

I would like to furnish a statement and be glad to answer any questions.

I would in no way wish to depreciate the work that you gentlemen are doing in regard to rural development, but many big city mayors, I am certain, feel you may be closing the barn door after the horse has run off.

As you know, 30 million people have left rural America for the cities, and if anything, the migration seems to be slowing down to a smaller, but steady stream.

I wish to state at the outset that I am not here so much to testify on the specifics of the Consolidated Farm and Rural Development Act, but to tell you that you haven't got that barn door closed yet, and the horses are still escaping, much to the dismay of big-city mayors, all over this country.

In the past several years it has been common for cities and States—particularly in the South—to advertise their municipal wares to potential industries and developers. Our "Forward Atlanta" program in my city has been most successful in giving Atlanta a rightful image as a progressive city full of people who care about their community.

I am particularly proud of the record Atlanta has made, and the reputation she has acquired throughout the country as a town too busy to hate. Northern industrialists were asked a few years ago which cities in their minds seemed to be the best sites for locating new development. Atlanta was high on the list.

In addition to efforts by the Atlanta Chamber of Commerce, the Georgia Department of Industry and Trade has run a series of very effective advertisements which have reflected the benefits of industrial and business expansion in Georgia.

As a result of these, and other efforts, the Atlanta metropolitan area has grown enormously. While downtown business districts in other cities have languished, ours is still growing and developing.

But the word about our attractions got out to people who were not just financiers and developers. The word got out to rural Georgia, Tennessee, and Alabama that Atlanta had jobs.

You gentlemen on the Agriculture Committee know better than I do what has happened on farms all over this country. The American farm population dropped 36 percent between 1960 and 1970 because of increased mechanization and low income. And I can assure you that many of those who left the farms came to my city and major urban areas like mine all over the country.

Many who came were young people, well educated in our State universities. Their family farms simply couldn't support their parents and themselves. These young people have been a considerable asset.

But many others who came were in no way prepared for either the social or economic pressures of big-city living. Forced by one kind of despair or another from their rural homes, these people—black and white—came to us uneducated and unskilled with large families to support and no specific plans on how to support them.

As I said, Atlanta had the attraction of jobs. During my administration the unemployment rate remained at 3 percent or lower, reaching as low as 1.7 percent. But among these poor rural migrants, unemployment soared to as much as 15 percent.

Now most cities are like steel vaults. They have strictly prescribed boundary limits, and while the census people and others like to talk about the Atlanta metropolitan area, and the standard metropolitan statistical area, our concern had to be for that area within the vault.

As more and more poor, uneducated people were pressed into that vault, more and more of those could afford it moved out of the city. Many of these poor people, unfortunately were consumers of tax dollars rather than producers.

Although our city departments performed herculean feats to handle the problems, our crime rate went up; our fire department was given much more work to do; sanitation became a nightmare; welfare costs soared; our housing authority could not build fast enough,

We were fighting a holding action, doing our best to stay ahead of the problems while handling each day-to-day crisis. Someone once said facetiously that the big cities didn't have time to plan for the future because they were too busy trying to figure out how they were going to pay for the city employees' cost of living pay increase for next year. This little irony is not so funny, nor is it too far from the truth.

There is no doubt in my mind that Atlanta could not have met each crisis as it came along without the considerable assistance of the Federal Government.

Between 1955 and 1960, a 5-year period, Atlanta proper added 29,400 people or 6,000 new residents every year who had previously lived either in rural Georgia, Alabama, or Tennessee. As nearly as I can determine this pattern is similar for other 5-year periods. But in that 5 years alone, rural people increased the city's population by nearly 7 percent.

During that same period of time, New York City received 69,000 rural migrants; Chicago got 87,800—nearly all of them from Mississippi, Tennessee, West Virginia, and Arkansas; 38,300 moved to the District of Columbia, mostly from North and South Carolina; Dallas got 43,800; and 60,500 moved to Houston.

In these days when urban planners are worried about population explosions, many rural areas are concerned about not having enough population. In 1967, 348 rural counties in the United States had more deaths than they had births, or what the demographers call a natural decline in population. I must tell you Senators that I don't see anything natural about that.

And what's happening in the cities?

The Delaware Legislature and the State's Governor have enacted legislation which will end industrial development along the Atlantic coast. The Governor of Colorado says he does not want, and will discourage any further development in his metropolitan centers. In California they are quietly asking the migrants from Illinois and Iowa to stay home.

What is happening in America? It used to be that chambers of commerce boasted of their progress by citing the numbers of new people and industries attracted. Now, in many of the largest cities, there has been a subtle change in those kinds of attitudes.

I spoke a moment ago about promotion efforts by cities and States to attract industry. I saw a magazine ad the other day which is unique in this field. Memphis, Tenn., is now advertising itself as "A City of Manageable Size."

Clearly, manageability is the key to the future of the American city. You, Senator Talmadge, along with Senator Humphrey and others on this committee have called for a balanced national growth. I have often said that the problems of Atlanta were formerly the problems of the small rural towns of Georgia that simply came together within our city limits. Often our State government has tossed off our difficulties as "Atlanta's problems", when in fact they were Georgia's problems, and as you have perceived, America's problems.

Now let me tell you why I favor the legislation by Senator Talmadge and Senator Humphrey.

Atlanta needed credit to achieve what it has, and so will rural America.

This legislation would encourage new industrial development to locate in communities of under 35,000 people; and it would provide loan money and some subsidies to build vocational schools, water and sewer systems and generally improve the quality of life in rural areas, so that the people who live there won't be forced to move to the major cities. If it succeeds in this, then I am for it.

I would also hope, however, that the Congress would find some method to improve the economic future of the inner cities. While it is important that we put a stop to the massive migration from rural areas, I would remind you that there are millions of Americans who have already made the trip. Somehow we must restore faith in the inner city so that the people who live there can find some alternatives to public housing and welfare.

Now one final point. You hear a lot of talk these days about new cities or growth centers that will have to be built to handle the additional 100 million people we expect to have in this country in the next 30 years.

I would submit to you that those growth centers already exist in rural America. If the farm population losses in the past several years are subtracted from the total nonmetropolitan population, you find that the nonfarm, nonmetro population rose by 19 percent during the sixties, despite population losses on the farms.

Towns of 1,000 and more people are growing. They are healthy. Apparently, most of the towns of 1,000 and more that were going to die, have done it. Many of the others are hanging by a thread, but clearly, natural economic forces are keeping them viable.

Your legislation seems to recognize that these small towns are well worth saving from the standpoint of their being able to accept some of the Nation's future growth, and I applaud this.

Although I am glad to see experimental new cities like Columbia and Reston try new ideas in urban development, I think that when we begin talking about growth for the future, we should first look at the community infrastructures that already exist.

Gentlemen, I thank you for this opportunity to testify on the Consolidated Farm and Rural Development Act. I wish it and you a happy and healthy future.

Thank you very much, sir.

Senator ALLEN. Thank you very much, Mayor Allen. We sure appreciate your coming before the committee and giving us not only the benefit of your views, but the benefit of your vast experience with Metropolitan Atlanta and the great metropolis that Atlanta is.

We have watched with a great deal of interest the progress that Atlanta made under your administration. We are proud that it is one of our great metropolitan areas in this country.

You commented on the fact that Atlanta did draw into its city many people from the rural areas of Alabama, Tennessee, and Georgia, but that you were still able to hold unemployment down to around 3 percent. I believe you interpolated it at one point at below 2 percent.

Mr. ALLEN. 1.7 percent; yes.

Senator ALLEN. Does that include also the 15 percent who were unemployed among the rural areas?

Mr. ALLEN. Yes; among the rural migrants that had moved in, this was the total unemployment. These people were basically unemployable.

Senator ALLEN. But in that particular classification, the unemployment was 15 percent; but overall, less than 3 percent?

Mr. ALLEN. Yes sir.

Senator ALLEN. That is certainly very remarkable.

Now, do you feel that supplying the credit needs of rural America would help rural America create job opportunities for people living in those areas, and would thereby avoid the necessity of their moving out of rural areas into the urban centers?

Mr. ALLEN. Yes, sir. Of course, I am speaking somewhat in a defensive position in regard to relieving the cities of the burden of the tremendous immigration which they have had. But on the more constructive side, I have the genuine conviction that the development of the automobile, which has given us almost unlimited mobility, and the affluence of the American people to move almost at freedom of will, wherever they choose, makes it highly desirable for the development of centers outside of these urban areas to be given the necessary credit to develop what really a great number of American people want to do, and that is, they don't necessarily want to move into the congestion of the urban center. And it is a two-way street. By making it important for their convenience and pleasant living in the rural areas, you not only improve the situation there, but you take this terrible burden off of the inner cities.

I guess the best thing to do is to cite an example which may not be a perfect analogy, but the cities have had no control over the movement of people into them. And this is part of our concept of freedom. I am not contesting that, except it would be like running a hotel and having a hundred rooms and being able to accommodate a hundred people, or let's say a hundred couples, and suddenly finding yourself with 200 couples, or 400 people, moving into the hotel. The cities have not been able to provide either housing or the necessary public facilities or hospitalization, or any of the other factors of American life as it should be for this tremendous number of people that have moved in. It is kind of a confused situation. You have good people move in—they are all good people, but they are not prepared for city living, and they have created a great problem. And it would be much better if adequate circumstances in rural areas were provided to maintain life there.

Senator **Allen**. Now, the rural areas, though, are losing to the urban centers?

Mr. **Allen**. That is correct.

Senator **Allen**. Not only the unemployables, but they are losing some of their best skills and talents as well, and some of their people with the abilities if they had the opportunity to use them in their hometowns.

Mr. **Allen**. The young people in Georgia in the rural counties of Georgia, the minute they get educated, they come to Atlanta or some other urban center. You are draining the rural areas of this country of the best, as well as some of not the best.

Senator **Allen**. That is one of the big problems.

You have, then, a double interest in this problem, being still interested as you are not only in the entire State of Georgia, but in Atlanta. You naturally want to see the rural areas prosper. And you want to see job opportunities created there. But at the same time, you do not want the unemployable people to come in from the outlying areas. Now, I daresay that you would welcome those with skills and abilities and talents. You are not voicing objection to that, I assume.

Mr. **Allen**. Well, they are really having an opportunity to get prepared. The cities were never prepared for the immigration of people that occurred; they never had an opportunity to catch up with it, and haven't caught up with it yet. That is the defensive side of the mechanism.

Senator **Allen**. Now, in the Atlanta area, is the population continuing to grow rapidly, or is it leveling off?

Mr. **Allen**. The central city, like other central cities, is static. It has been. The metropolitan area, which is only the area prescribed by some artificial boundary lines established by the legislature, the metropolitan area is growing by leaps and bounds, 8 to 10 percent a year, a fantastic growth. The metropolitan area simply didn't hardly exist 20 years ago, with a central city of 350,000 people. The central city is now 500,000, and the metropolitan area 1.4 million. But the suburban area is expanding all the time, which is really an indication of the desire of the affluent who can afford it, as well as racial problems that contribute to it, to get further and further away from the central city to more open space.

Senator **Allen**. They end up, though, somewhere in between the central city and rural America, don't they: they end up in the suburbs?

Mr. **Allen**. Yes. Although they are not within the city limits, they constitute in many respects the urban center of the metropolitan area.

Senator **Allen**. Does that create any problems there in Atlanta in financing the city?

Mr. **ALLEN**. Absolutely.

Senator **ALLEN**. They move out to the suburbs?

Mr. **ALLEN**. The inability of the central city, the municipality, to have a normal growth and expansion is in my estimation the greatest detriment today of the central city, its inability to grow and expand.

Senator **ALLEN**. So actually, then, this problem that we are working on is something that directly concerns every citizen, whether he lives in a large city or a small city or in a completely rural area; the problem touches and concerns him, does it not?

Mr. **ALLEN**. Yes, sir.

Senator **ALLEN**. Speaking of the rapid growth of Atlanta, the skyline has changed there so much since the war. You have some tall buildings built there that makes you wonder just what was there before the war.

Mr. **ALLEN**. I don't know which war you are talking about, but there wasn't anything there after one war.

Senator **ALLEN**. I have knowledge only of the last one, personally.

Mr. **ALLEN**. I didn't mean to be facetious.

Senator **ALLEN**. There wasn't much left after the other one, was there?

Mr. **ALLEN**. We always say the greatest urban renewal project, slum clearance, that any city ever had was in 1864.

Senator **ALLEN**. That is right.

I do appreciate you coming before the committee and giving us the benefit of your views, looking at it as a great community leader, a great mayor of one of our great metropolises, and certainly one that is able to see the problem not only as a big city problem, but as a rural problem and a common problem that we all have. And we do appreciate the information you have given us. Thank you very much.

Mr. **ALLEN**. Thank you.

Senator **ALLEN**. Mr. Carpenter, please. We are always always glad to have you come and testify.

STATEMENT OF L. C. "CLELL" CARPENTER, VICE PRESIDENT, MIDCONTINENT FARMERS ASSOCIATION, COLUMBIA, MO.

Mr. **CARPENTER**. Thank you, Senator.

I am amazed at your persistence in always being here at the committee hearings. We appreciate it, I want you to know.

Senator **ALLEN**. Thank you.

Mr. **CARPENTER**. Mr. Chairman, with your permission, I will read a rather brief statement which represents the statement of our organization.

Senator **ALLEN**. Very well.

Mr. **CARPENTER**. My name is L. C. "Clell" Carpenter, vice president of Midcontinent Farmers Association with headquarters in Columbia, Mo. I am appearing here today on behalf of approximately 152,000 members in Missouri, Arkansas, Oklahoma, Kansas, Nebraska, Iowa, Illinois, and other adjacent States.

Mr. Heinkel, president of Midcontinent Farmers Association, stated in his testimony before your committee on June 16:

> I wish to compliment Senator Talmadge, the Chairman of the Senate Committee on Agriculture and Forestry, for having the foresight to insist upon the

incorporation of Title IX in the Agricultural Act of 1970 before its final passage. We view this provision as a mandate to develop an adequate balance between rural and urban America, and it further requires the Administration in power to provide factual information annually on federal programs and services rendered to the people of rural America.

I can truthfully say that this is one section of the Agricultural Act of 1970 which we in MFA can endorse in its entirety. I might say that the price of corn in Missouri today has caused us to think that we are right on the other portions of it.

Furthermore, it occurs to me that this subcommittee can prove itself to be of great benefit to rural America and the nation as a whole if it can bring to the surface the facts as they relate to our farm economy, the amount of substandard housing, the amount of substandard income that prevails in rural America, and as these facts are revealed constructive programs can be outlined which will develop and expand our rural areas in such a manner as to make all of America a better place in which to live.

During the past two decades our Nation has experienced a period of unprecedented economic growth. Most rural areas, however, have not shared in this expansion and prosperity but have actually been victims of this growth.

Unlike the national growth pattern, rural areas have experienced a decline in personal incomes, family-size farms, population, jobs, and basic community services. The low level economic base of most rural areas has resulted in a correspondingly unsatisfactory level of community facilities and services, and social and cultural advantages.

A recent population report again indicates an outmigration of 600,000 rural people with the population now being down to 9.7 million. Unless we can reserve this trend of rural migration to urban centers, we can expect more national discontent and poverty,

We are delighted that you have introduced S. 2223. We heartily support the intent of this bill: to encourage and expedite development in rural areas.

Our organization has, for years, advocated Federal programs designed to improve public and private services and to provide greater income opportunity to all rural America. Members of this committee have been instrumental in the enactment of worthwhile legislation to improve farm development for which we are grateful.

We now are in need of legislation to enable rural communities to develop strong and viable economies by encouraging industry development in smaller towns and thereby improving opportunities for rural people.

We have studied S. 2223 and generally feel the mechanics of the bill workable. Title I is constructive in that it expands the Farmers Home Administration's supervised credit program to permit making loans for appropriate rural development projects which will benefit the community. It is good business and good government to build on the basis of proven programs.

We approve the above-board approach to the two kinds of incentives offered—interest supplements and rural development capital augmentation payments, which for all practical purposes I will designate as grants in aid.

Mr. Chairman, if you would pardon personal reference, I have had some firsthand experience in this field. In 1935 I was employed by the Missouri Rural Rehabilitation Corporation (the forerunner of the Farmers Home Administration). Grants in aid were an integral and necessary procedure in the initial development of this worthwhile program. I have often seen exceptional progress made with relatively few dollars extended to individuals, groups, and organizations. This same procedure could produce similar results in the development process of nonmetropolitan areas.

We commend the provisions of title II which would establish a Federal rural development system. This proposal is similar to the farm credit system which over the years has been one of the most important instruments in making suitable credit available to farmers.

The major accomplishment would be that through this process the "central money market" will be made available not only to farmers but to nonmetropolitan oriented business and enterprises.

The initiation of this new credit system, properly funded and properly administered, could indeed assure adequate credit available to all facets of our rural communities. We heartily support this provision as we understand any rural development purpose means either a public or private project that will contribute to a reasonable natural growth policy and thereby enhance the rural areas as a place to live.

We believe also that by using the same principle as used in the farm credit system, the rural development credit system should generally require participants in this program to purchase captial stock so that in due time it can become an independent agency as the farm credit system has now become.

We concur with the provisions of this act that loans would not be made to establish duplicating services which would only serve to impair the success of both the new business enterprise as well as the existing one.

It is not entirely clear to us how the sponsors of the bill intend to apply the provisions: "Loans are restricted to borrowers who cannot obtain credit elsewhere." Whereas, elsewhere in the act we quote: "The applicant demonstrates that he has been unable to obtain needed financial assistance from either private or public sources at reasonable rates and conditions." We realize the need for certain safeguards in this regard. Today, rather stringent regulations are applied to the Farmers Home Administration eligibility requirements. However, to my knowledge the farm credit system does not have such limitations. Providing additional money for agriculture's expanding needs has been a basic function of the farm credit system.

Mr. Chairman, I don't necessarily have an answer to that, I am merely asking the question as to its effectiveness.

As we interpret S. 2223, it appears that much of the burden of proof of loan feasibility—and thus of success of this program—is left to the borrower. While we can appreciate the need for adequate safeguards and readily acknowledge the desirability of accepted business procedure in order to judge the practicality of loan request, underdeveloped rural areas are in need of an advocate—who is possessed with ingenuity, expertise, and enthusiasm sufficient to develop local leadership into positive action.

The purpose of this bill is to spur development. Would it not enhance the chance for success if the agency itseif was charged with direct responsibility for assessing opportunities and assisting prospective rural development project borrowers in preparing loan applications and also for following through with technical assistance and management?

Mr. Chairman, rural progress won't be measured by the number of agencies in operation, nor even by the concern of those involved, but by the effectiveness of the effort. You and I and many members of this committee have worked hard to design and implement worthwhile Federal programs for farm and small-town America. We have also continued to plead for adequate funding. Often we have seen these programs bear less fruit than envisioned, not because the program was at fault, but simply because the administration didn't request and the Congress failed to provide adequate funds.

May I again use personal experience. I serve on the Governor's watershed advisory committee which makes recommendations and establishes priorities of action under Public Law 566, the Watershed Protection and Flood Prevention Act. These projects are classic examples of community development. Flood and erosion control protection plus environmental control and improved crop production capabilities are provided the farmer, while his city cousins are provided water supplies, recreation, as well as environmental improvement.

It has been almost embarrassing to serve on this advisory committee during the last year. Here is our dilemma: Eleven watersheds authorized for detail planning; three watershed areas awaiting planning authorization in Washington, D.C.; three areas with preliminary investigation started; four areas with priority given for preliminary investigation. And, at our last meeting, approximately eight additional watershed areas made requests to be considered. Our only action was to move two of the most meritorious out of the eight requests into the category of being considered for preliminary investigation.

This unsatisfactory situation is occasioned soley by insufficient funding personnel. This program is a key to rural development, in which the individual, the cities, the State of Missouri and the Federal Government are financially participating.

Mr. Chairman, I am using this illustration for one purpose only. Unless we expect to move forward and properly fund this program, let's not put another item of legislation on the books to confuse the public.

Now does seem an opportune time to push for a turnaround in the problem-creating migration from country to city. There is a clamor for rebuilding rural America. All across the Nation once bustling local trade centers have become decaying ghost towns. Those towns remaining compete for the location of a reorganized school, a small manufacturing plant or a farm service center because the outcome may determine which town survives, which dies. On the other hand, big cities are filled to the bursting point, many overwhelmed by social problems, some wallowing in economic stagnation.

Dispersal of population does hold promise for relief from the staggering social problems of big cities. New people can directly benefit rural communities. They can supply needed skills and make more feasible the addition or expansion of badly needed services.

However, any program designed to revitalize rural America must hit the country with dynamic impact if it is to succeed. The job of revitalizing rural America cannot be accomplished with words. Deeds are going to be required. It is a job that must attract national support.

Mr. Chairman, we can see promise in the provisions of S. 2223. Its emphasis on a new source of adequate, reliable credit is sound. We pledge our wholehearted support to help pass this legislation and, furthermore, our support to carry it out if enacted into law.

Mr. Chairman, I could not conclude this statement without reminding you that an economically sound rural America is dependent upon a prosperous and viable agriculture. We urge this committee to reassess the humane and economic values, strengthen legislative authorizations as needed, and lead the way to a total commitment on the part of Congress and the administration to validate, activate and adequately fund this and the many other programs already in force.

Thank you very much, Mr. Chairman.

Senator ALLEN. Thank you very much, Mr. Carpenter. I appreciate your appearance before the subcommittee and the expression of your views and those of your association.

You feel that there is a need for additional credit for the agricultural economy in rural America?

Mr. CARPENTER. Mr. Chairman, I am privileged to reside in almost the middle of the State of Missouri. And as such I have almost constant contact with county seat towns in rural Missouri. And there is no question but what there is a dire need for this type of a program.

As an illustration, the transportation industry is in trouble. You folks have been faced with that problem here. The railroads in rural areas in Missouri are drying up. Why are they drying up? Because the small towns out there are getting smaller or are becoming nonexistent. They don't have the economic base to remain in business.

So, Mr. Chairman, there definitely is a need for this type of program.

Senator ALLEN. Mr. Carpenter, you have given us some strong talk and some straight talk on the matter of really doing something about this program, or not bothering to enact anything into law, that seems to be the thrust of your remarks.

Mr. CARPENTER. Well, pretty largely. And it is occasioned a little bit by the agency that I mentioned—and I am not critical of that, Senator Allen.

Senator ALLEN. I think the point is well taken, I am not objecting to it, I agree with it. At the last meeting—just 3 weeks ago, the reason it is so vivid in my mind—four city and rural area committees came in to appear before us. They made exceptional pleas for their programs. They were meritorious. They were water systems for county seat towns. And they were most helpful to farmers. But all we could do was to move them to a little higher priority, and we had to tell them, folks, it is not months off, it is years off. Now, when you do that you soon lose the confidence of people.

Now, this bank envisioned by this bill would have a field of operation that is not provided by the present farm credit system?

Mr. CARPENTER. Very definitely, yes sir. Of course, it is difficult—I happen to be in business personally in a small county seat town—the Chamber of Commerce figures are 8,000, but I think it is actually about 6,500—and frankly, there are businesses there that encounter considerable difficulty obtaining credit to be able to expand and continue this business, and to employ additional people.

Sentator ALLEN. Is legislation of this sort needed and is it sound, in your judgment?

Mr. CARPENTER. Well, you are building both of these, both title I and title II, on the principle of existing programs that I haven't heard anyone say are unsound. So I would have to say that they are bound to be sound.

Senator ALLEN. Now, the concept of eventual borrower ownership of the bank, is that a sound principle?

Mr. CARPENTER. It certainly has been, Senator Allen, for the farm credit system, yes.

Senator ALLEN. Now, the farm credit system has been an outstanding success, based on this principle, has it not?

Mr. CARPENTER. That is my opinion, sir, I think you are correct.

Senator ALLEN. I note that—and by the way, authors of the bill and the subcommittee welcome any suggestions as to methods of improving the language of the bill, or methods of refining the thought behind the legislation. I note that you call attention here on page 4 of your testimony to the fact that loans are restricted to borrowers who cannot obtain credit elsewhere, and then the next sentence "whereas elsewhere in the act we quote: 'The applicant demonstrates that he has been unable to obtain needed financial assistance from either private or public sources at reasonable rates and conditions'." Now, the "whereas" there would indicate that the second statement would be inconsistent with the other, but they seem to say the same thing to me. And the thought behind it is that this would be a plan that would supplement existing programs, and if a borrower was able to get the money from private sources or other public sources, he would not be able to come to this method of financing, which would be a sound approach, it would seem to me.

Mr. CARPENTER. Senator, I would see no objection to that. I pointed out that only as there appeared to be some inconsistency. Now, Mr. Baker knows, he and I worked in the Farm Security and Farmers Home Administration, we had this stipulation forever. And even then it worked fairly satisfactory.

Now, I think I am correct, in the existing farm credit system operations I do not believe the same provisions prevail. However, I also have been through the gamut, as have you, on the hearings of the new farm credit bill, and I am aware that there are certain interests that would like to get more restrictive than it is. So I don't know the answer to that one, Senator. I am pointing out what I think might be a problem.

Senator ALLEN. The subcommittee I am sure will take into account your suggestions and give them serious consideration.

Do you think that this legislation might be the vehicle for the creating of more jobs in rural areas, more job opportunities?

Mr. CARPENTER. Mr. Chairman, I don't think there is any question but what it can be the vehicle. I don't like to admit it, but I have almost come to the conclusion that the likelihood of our having greater numbers of people actually engaged in agriculture is not good, but it likely will go the other way. And the only way that I know that we can maintain a rural population in what I consider good clean environment in rural areas is to increase the economy of the rural area and thereby create jobs for those people who may live there and be again fully employed.

Senator ALLEN. You suggest—and I certainly agree—that the only way that we are going to have a favorable rural economy, rural development, is to start with a basis of a sound agricultural economy?

Mr. CARPENTER. Right.

Senator ALLEN. That is an absolute must.

Mr. CARPENTER. Yes sir.

Senator ALLEN. And this bill would provide the method by which agriculture could have more of its credit needs met, and by which necessary community services would be brought into rural America.

Mr. CARPENTER. Right.

Senator ALLEN. And more job opportunities created.

Mr. CARPENTER. Correct.

Senator ALLEN. Now, have the credit needs of rural America or the agricultural economy increased many fold in recent years?

Mr. CARPENTER. Oh, by all means. When I mentioned there being employed back in 1935, we could make a loan for $700 and actually set a family up in farming to where they could make a living. But it takes many, many times that much now, as you know, Senator, to get started into farming.

Senator ALLEN. Hasn't the whole concept of agriculture changed, and isn't it continuing to change, in that the small family farm is pretty well disappearing from the face of America, and the large farms are taking over?

Mr. CARPENTER. I would say the larger farms are, yes, sir.

Senator ALLEN. Requiring heavier equipment, more investment, more capital

Mr. CARPENTER. Right.

Senator ALLEN. And the cost of land has increased greatly.

Mr. CARPENTER. Yes.

Senator ALLEN. What about the young people going into agriculture as a way of life and for a livelihood?

Mr. CARPENTER. Mr. Chairman, that is one of the real problems, I think, that faces rural America. And that is, how does a young family get into the farming business. And I must say, when we start talking about an investment of from $150,000 to a quarter of a million dollars, it does indeed become a perplexing problem as to how this is accomplished.

Senator ALLEN. The average age of the person engaged in farming, is that going up all the time?

Mr. CARPENTER. It sure is.

Senator ALLEN. The same people who grow older by the year remain on the farm and no new blood is being pumped into the number on the farm?

Mr. CARPENTER. That is correct. We may eventually have to have some new system of farm ownership. I don't know what it is, but I can see a problem.

Senator ALLEN. Now, under some of the aspects of the bill, a lot of the community services would not directly be farm loans, but would not farmers profit by some of the nonfarm loan provisions of the bill?

Mr. CARPENTER. Senator, by all means. And I think it is desirable—it is amazing, in the rural areas of Missouri right now, I can take my home community of Columbia, Mo., and those particular areas, and there are any number of farmowners or their wives who now have part-time jobs in industry and town. And it is good, it helps the town, and it helps those people out there. And they still are able to live where they want to live, and with a rural environment, and raise some pretty good youngsters and future citizens.

Senator **Allen**. I notice on page 3 of your testimony you think that the rural location incentives payments that you endorse there would make it easier to attract new job creating industry.

Mr. **Carpenter**. Yes sir.

Senator **Allen**. Just how would that work?

Mr. **Carpenter**. Well, of course I think there are a number of incentives that can be developed on that. And one that I can mention—I can think of one instance that I call grant-in-aid, I think it is really something else—but, take my home town of Trenton, Mo. With only a few thousand dollars they were able to install a new water system, and a new sewage disposal system, and with the rest of it, a loan that they were able to pay in their regular way but Senator, what that has done is, it has encouraged industry, and as of today, with those facilities being available, there are some 2,000 additional people employed there that couldn't be employed there if they had not had those facilities, because there would be no way to put them in. So that is what I am saying, that a few dollars—and truly it is on occasion a few dollars—in this type of investment can return multimillions of dollars in community benefits.

Senator **Allen**. Yes. And how would the Government then get its money back?

Mr. **Carpenter**. The Government gets its money back, most of us pay income taxes, and a few other taxes along. So the Government does all right when the economy does all right on that.

I would like to point out one thing that it becomes a real problem in rural areas—and I made mention of it—in my statement—rural areas need an advocate. I have seen time and time again when beneficial Government programs are made available, and they are as available to rural areas as they are to urban areas. But urban areas are generally organized and have planned with their expertise to where they can get in on the ground floor and have been ready to move, and unfortunately we out in the rural areas are still sitting there without plans made to take advantage of the benefits. Do I make myself clear?

Senator **Allen**. Yes, you do. And I think possibly this bank by making technical service and advice and help available would go a long way in supplying some of that need.

Mr. **Carpenter**. Very desirable, sir.

Senator **Allen**. The outmigration from the rural areas is not only a problem for rural America, but as Mayor Allen cogently suggested in his testimony, it also creates a big problem in the urban area, does it not?

Mr. **Carpenter**. By all means.

Senator **Allen**. So by going to the root of the matter and by putting a halt, or slowing down the rural outmigration to the big population centers, or even if we could reserve that trend and go back to the land, would that not help solve some of our urban problems as well?

Mr. **Carpenter**. Right. And I really think there is a large segment of our population who now lives in congested urban areas that would welcome the opportunity if this reversal could be made, and they had a means of livelihood back out in the rural areas; yes, sir. I don't think there is any question but what it would solve many problems, sir.

Senator ALLEN. Thank you very much, Mr. Carpenter. I sure appreciate your coming before this subcommittee and giving us the benefit of your views. Thank you sir.

Mr. Wagner, please.

Mr. Wagner, you may proceed, sir.

STATEMENT OF AUBREY J. WAGNER, CHAIRMAN OF THE BOARD, TENNESSEE VALLEY AUTHORITY, MUSCLE SHOALS, TENN.

Mr. WAGNER. Thank you, Senator.

I have with me Mr. Marquis, our General Counsel; Mr. Foster, who is Director of Navigation and Development and Regional Studies; and Mr. Williams, who is our Director of Agricultural Development.

Senator ALLEN. We are delighted to have you gentlemen.

Mr. WAGNER. Mr. Chairman, we appreciate this opportunity to appear before the committee to discuss some of the problems relating to rural development which we have encountered in the Tennessee Valley and which may be related to the kind of legislation which you are now considering.

As we see it, the necessary first step in upgrading the quality of rural living is to assure adequate employment opportunities. Otherwise, as Mayor Allen pointed out earlier, rural people are compelled to migrate to urban centers, thereby increasing the pressures on housing, transportation, law enforcement, sanitation, education, and other facilities that beset our metropolitan areas. Since 1933 when TVA was created, there has been a notable increase in job opportunities in the Tennessee Valley region, and outmigration has been halted. Per capita income in the region has risen, not only absolutely but relatively, from 45 percent of the national average in 1933 to 75 percent today. Jobs in manufacturing are a greater part of the total employment in our area than in the Nation as a whole, and the greater portion of new industrial jobs, and I think this is quite magnificent—in fact, about 80 percent in recent years—are developing in the smaller towns and cities, and the rural areas outside the metropolitan centers. And this is what I believe your committee is concerned with.

TVA's programs have been directed toward supplying basic tools for use by the people of the area in developing their agricultural and industrial resources and their living standards. For those engaged in farming, we have provided improved fertilizers, pine seedlings, and electric power. These tools have helped farmers to conserve their topsoil, heal gullies, and increase their productivity and their income. Income from farm operations in the Tennessee Valley has grown sevenfold—from $113 million in 1935 to $780 million in 1970.

The development of the Tennessee River and its tributaries has provided a base for industrial and commercial growth and a prime recreation asset. The waterway makes available low-cost barge transportation, and the dams we have built provide abundant supplies of water for communities and industries, as well as for water-based recreation. Flood control has made the level land on the shoreline safe from floods and therefore more usable by industry. And, of course, TVA's dams and steamplants provide large amounts of low-cost power.

All of this has meant jobs. Private industry has invested over $2 billion in new and expanded plant facilities along the main stem of the Tennessee River since TVA completed the navigable channel in 1945. And you in north Alabama, Senator, are certainly well aware of that change.

Senator ALLEN. Yes, I am. And we are extremely proud of it.

Mr. WAGNER. These new and enlarged industries have provided about 37,000 new jobs directly and many thousands more indirectly in the supporting economy. In total in the Tennessee Valley, about a million and a half new jobs have been created in the last 30 years.

New industries have not concentrated in a few congested locations. They have sought out those sites where their plants can be served by a combination of highways, railroads, and the navigable waterway; it has been demonstrated time and time again that the presence of these alternative transportation modes at a single location acts as a magnet for new industries. As a result, much of the industrial growth has occurred near small towns or even where no town at all had existed. The importance of this kind of development to those who have lived in these rural areas is obvious. Opportunities for jobs have arisen in their own neighborhood.

All along the main river, towns that had been dependent on the surrounding farm economy—Calvert City, Ky., New Johnsonville in western Tennessee, Decatur and Guntersville, Ala., to name a few—have become or are in process of becoming industrial complexes. Similar developments are taking place along tributary streams where TVA has deepened the channel to bring barge transportation to points already served by railroads and highways. The town of Calhoun on the Hiwasee River in eastern Tennessee, is one example. Similarly the Melton Hill Dam on the Clinch River has brought commercial navigation to Clinton, Tenn., at the foot of the Cumberland Mountains, where a fairly large industrial site is already being utilized by two industries, and the remaining acreage is under active consideration by others.

In eastern Tennessee, we have under construction the Tellico Dam and Reservoir project which will bring navigation to a juncture with a trunkline railroad and a through highway at a point where several thousand acres of industrial land are available. It will provide one of the more exciting—and esthetically, one of the most beautiful—employment opportunities in Appalachia.

For cities and towns along some of the smaller tributaries, assurance of an adequate water supply represents an increasingly serious problem. In western Tennessee, TVA has built eight small dams on the Beach River, to regulate floods and provide new recreational opportunities. Just as important, these dams provide a dependable water supply for the town of Lexington and the surrounding area, that will accommodate industrial expansion there for many years to come. On the Elk River in lower middle Tennessee, we have just completed Tims Ford Dam, widening opportunities for a number of small towns near and along its reservoir to expand commerce and manufacturing. On Bear Creek in northern Alabama, we have completed the first of four small dams, which already has prevented thousands of dollars in crop damage from floods.

The evidence is clear that careful and opportune resource development of the kind I have described can stimulate industry—both large and small—in rural areas, provide jobs for young people moving from their farm homes, help stem outmigration, and in so doing ease the problems, not only of the larger cities in the Tennessee Valley area, but of metropolitan centers throughout the Nation.

I do not want to give the impression that TVA's purpose is simply to dam up all the streams or that our only concern is in creating job opportunities. Our efforts are designed to utilize the water resources, along with others, to best serve the needs of the greatest number of people in our region.

In some instances this means dam and reservoir construction, while in others it means preserving free-flowing rivers, capturing esthetic and historical values—but in any case, improving rather than harming the total environment.

We are sensitive to the needs and demands for environmental excellence, for opportunities to enjoy the woods and waters in many ways. We know that man's poorest environment is joblessness and hopelessness, while his best environment is in productive and rewarding work. But we also know that a good life requires more than just a job. We are determined that in the Tennessee Valley there shall be beauty along with opportunity; a sound and protected resource base along with expanding employment.

The success of industrial development in rural areas depends ultimately on the ability of smaller communities to compete with urban centers in attractiveness and services, as well as in making land resources readily available. The grant programs that have been opened up to these communities in the last decade have been very helpful—in fact, essential—but matching grants can be exhausting. In working with communities we have heard frustrated small town mayors exclaim that they had "enjoyed" all of the matching grants they could stand. We believe the availability of specialized credit to finance part of the cost of revenue-producing facilities or services that could not be taken care of by commercial institutions can help rural development.

It seems to us that there may be a parallel to the situation in the 1930's relating to rural electrification. In that era, the feasibility of bringing the blessings of electricity to rural customers had to be demonstrated. In the Tennessee Valley, for example, only about 3 percent of the farm homes had electricity in 1933, whereas today it is available throughout the area. A major factor in rural electrification throughout the country was the making available of adequate amounts of credit. When credit was supplied, State and local agencies were able to make an ambitious dream a reality.

Many of the current-day financing needs of small communities are related to revenue-producing services similar to electrification. All they need for success is initial credit. But there are other services that are only partially self-liquidating. Provision of funds for these through loans and incentive payments would, in turn, leave local tax funds available to finance services that produce no revenue.

In almost every project that TVA has undertaken, one or more local organizations have acted—and are acting—in partnership with us, sharing costs, sometimes taking over one element of a program providing the community leadership and local management without which the maximum economic and social benefits of the project could not be attained. Fortunately, it has been possible for TVA's project partners to find one means or another of financing their ressponsibilities in connection with such projects.

However, there are aspects of rural development for which financing from conventional sources has been difficult or impossible to obtain. For example, many rural communities in our region (and I should think across the Nation) are in need of solid waste management systems for trash collection and disposal. This is an urban service that is expected in metropolitan areas and which ought to be available as well to rural residents. TVA has worked with a number of local committees in devising countywide collection systems and we have found tremendous local interest. Nevertheless, plans for such systems have not been put into effect except in a few instances because they require an initial capital outlay for compactor trucks and installation of bulk containers at close intervals throughout the area. Financing of initial capital costs for this type of service by existing credit institutions is not generally available and local governments are reluctant to use their bonding authority for new services of this type. As a result, many rural areas will continue to have grossly inadequate facilities for the handling of solid wastes unless a new source of credit can be found.

Many other desirable developments have been prevented by a lack of adequate funds. In 1951 TVA leased 95 acres of Government land on Cherokee Lake in eastern Tennessee to Grainger County for a public recreational development. It is a beautiful site on the lake that is suitable for the creation of a bathing beach, camp grounds, baseball fields, and similar public recreational uses, but in 20 years the only thing the county has been able to afford has been the installation of a few picnic facilities. Similarly, in 1955 we leased about 100 acres of Government land on Norris Lake to Campbell County, Tenn., which is a suitable site for the installation of day-use facilities such as picnic tables and group shelters.

Yet there has been virtually no development at all at this location. In this instance, the lack of funds for the maintenance of such facilities is as much of a deterrent to the county as is the capital outlay that would be involved. The provision of these recreation facilities, Mr. Chairman, is one of the amenities which add to the pleasures of rural life and makes industry there competitive with industry in the larger areas.

I know of one small community with which TVA has been working to develop plans for a sewage treatment facility, for which sufficient financing appears to be available in the form of grants and loans. However, the community is hesitant about undertaking this much-needed project, principally because of the feeling that a population of 1,200 may not be able to carry a debt of some $370,000. A nearby town has, in fact, defaulted on bonds issued for its sewerage system.

There is another phase of valley growth that illustrates the importance that new sources of financing can play in rural development. This is the turn to specialty crops. It began about 14 years ago in the narrow but fertile valleys of western North Carolina when the State agricultural extension service, in cooperation with TVA, began encouraging mountain farmers to increase their incomes by growing vine-ripened tomatoes. From 2 acres this specialty crop has expanded to 1,400 acres, and this experiment has now been extended to the growing of strawberries, raspberries, blueberries, and even Christmas trees and ornamental shrubs. Similarly, on Sand Mountain in northern Alabama, TVA has worked with the Alabama Extension Service in encouraging the production of specialty crops such as pimento peppers, bell peppers, and potatoes.

The most serious problem encountered in both North Carolina and Alabama has been financing at the point which we call the first buyer. Farmers may be ready to grow specialty crops and the supermarkets may be ready to retail them, but there is a point in between where someone—some business, cooperative, or other institution—must buy from the farmer, clean or grade or otherwise process and package the crop, and get it on its way to the consumer. Where many small producers are involved, established institutions appear reluctant to enter the chain of commerce as the first buyer. While western North Carolina has surmounted this difficulty in the case of tomatoes, we feel that the lack of a stable marketing organization is inhibiting farmer acceptance of the other specialty crops I mentioned, in both North Carolina and Alabama. New money sources for "first buyers" must be found if these programs are to succeed.

This same financing gap has been experienced in the marketing of livestock. For example, sales of feeder pigs in north Alabama have increased 100 fold in the last 10 years—from 1,500 pigs in 1961 to 112,000 in 1969 and an estimated 156,000 in 1970. The 112,000 pigs were marketed for almost $2.2 million, largely for feeding out elsewhere. If they had been fed out and slaughtered and processed in the valley, their carcass value would have been over $8 million. But this operation, which would have created 128 new full-time employment positions, would have required a $2 million investment in new facilities. We estimate that, in northern Alabama alone, the expansion of all farm-dependent businesses to their full potential would require new investment capital amounting to over $500 million and would add 36,000 jobs to the area economy.

In conclusion, the overall purpose of legislative proposals to provide tools for raising the quality of life in rural areas and communities is one to which TVA has been committed since its inception. The basic need for additional source of financing and credit for rural development seems apparent. We favor provisions requiring that any approved project be consistent with the development plans of multicounty agencies. Such provisions are well supported by TVA's experience in some 15 or 16 tributary area development projects, which could not have succeeded without the cooperation of regional planning agencies and the local support and enthusiasm they engender.

Mr. Chairman, that completes my prepared statement. We will be glad to answer any questions you have.

Senator **Allen**. Thank you, Mr. Wagner. We certainly appreciate your appearance and that of your associates before the committee, and giving us the benefit of your views and the benefit of your experience with TVA.

We are certainly proud of the Tennessee Valley Authority and the fine work and service that it renders. The people of our area and the people of the entire Nation have always been concerned with providing, helping to provide a better and more meaningful life for all of our people. We are proud of the way in which TVA has carried out this concept.

Mr. Wagner. Thank you, Senator.

Senator Allen. And we are proud of this cooperation that you give our citizens there, and working with them on the programs which they have, and that you have occasion to suggest things to them that would make for a better life for them.

Now, TVA has been eminently successful. And I am wondering if one of the reasons for that has not been the decentralized control, where you have minded your affairs from the whole region. Is that part of the concept of TVA?

Mr. Wagner. Yes, it is, Mr. Chairman. And we feel that has been very important in our operations, that we are able to operate with our management and our personnel in the region for which we have responsibility, so that we are able to see and become acquainted with the problems and the opportunities that are there at firsthand, to work intimately with the people of the region, to help them to realize their ambitions, and to provide a regional planning function which sees that isolated areas don't move in conflicting directions. The development which I have described of industries in the smaller towns and in the rural areas did not happen just by accident. It was recognized by the TVA and by community leaders in the early days of our work there that the necessary changes in agriculture, necessary to conserve the soil, would release a great number of people from the farm labor force. And if we were not to just add those to the stream already moving to the great cities, we would have to find employment for them in rural areas. And so we and citizen groups working together all through the Tennessee Valley sat down to analyze the resources that we had to work with to determine what kind of industries could succeed on the resource base, and that could be in harmony with the environmental and ecological aspects of the region, that could in short succeed there better than anywhere else.

The chamber of commerce and industrial development groups, local groups all through the Valley, worked diligently to persuade managements of industries of that kind that it is a good place for them to locate. And as the first industries began to move in, they found that these rural locations and small town locations were ideal from their standpoint, ideal from the standpoint of employees, and that the labor force available in the Tennessee Valley was an excellent labor force. The word spread to other industries and this is the reason that we can say now that the Tennessee Valley from the standpoint of the percentage of labor force in manufacturing in more industrial than the Nation as a whole. Yet in the recent past, 80 percent of this new industry has gone into the smaller towns and the rural areas.

Senator Allen. Don't you find that most of the small towns not only want but badly need a sound industry to come into its area?

Mr. Wagner. Yes, sir; we surely do. One of the things that we find in talking with educators in the area, high school principals and members of county and city school boards, is their concern that so many of the graduates from their schools in past years, in seeking employment that was available them, had to leave the area. As I say, we think that tide has about been stemmed now. The region is providing about as many jobs as it is providing workers. There is of course some flow back and forth. But it is important, we think, that a youngster should have a variety of choices available to him as to where he wants to work and what he wants to do. And we think we are providing that now.

Senator **ALLEN.** Mayor Allen testified—former Mayor Allen of Atlanta—that in recent years they have had a tremendous influx into Atlanta of unemployables from the rural areas. But I called to his attention, and he conceded that it was correct, that he was not only getting a lot of unemployables, but he was getting young people with skills and talents and abilities that are leaving the rural areas. And it is sapping the strength of the rural areas. I suggested that there is as much of that migration, if not a whole lot more, than there is of the unemployables that go into the big city. Would you feel that that is correct?

Mr. **WAGNER.** Yes, sir. All types of people are leaving or have been leaving. Generally those who get some education and have an ambition to get ahead look for job opportunities, and if they don't find them in the area, they are the ones who move out. In the past these job opportunities have too often been in the great metropolitan centers. This is the tide that we hope we are stemming. And that is the reason that we are here, because we feel that one means by which it can be further stemmed, not only in our area but in the rest of the United States, is to provide additional sources of credit for the kinds of developments that not only provide job opportunities in the rural areas, but that make living there pleasant, and provide them with some of the same cultural amenities that the larger cities have had in the past.

Senator **ALLEN.** You maintain at TVA, by whatever name it is called, an industrial development department, do you not?

Mr. **WAGNER.** Well, not precisely that. We have a regional studies group. And Mr. Foster, who is with me, heads that group. Our work primarily is to catalog the resources of the area, and to make this information available to local and State groups who actually do the industrial development job. But we are concerned with the growth of industry in the area.

Senator **ALLEN.** What do you find that industries looking for a new location are interested in, what factors?

Mr. **WAGNER.** Let me say that some of the very basic industries, the heavy industries, are interested in locations on the waterfront, where they have a water supply, water transportation, rail transportation, highway transportation, and good building sites, level land that they can build on.

Senator **ALLEN.** Yes; but aren't they interested in employees at all?

Mr. **WAGNER.** Yes. All types of industries are interested in a good labor force. They are concerned that their employees shall have good living conditions, and that when they come to work in the morinng they are refreshed and ready to go to work. And this is one of the features that manager after manager has told me in some of these industries in small towns that he finds in his employees. They can get to work in the morning in 5 or 10 minutes from their homes, because they don't have traffic congestion. They work in surroundings that are pleasant.

At the end of the day they go home, and their wives perhaps have picnic suppers prepared and in the basket, and the kids put the boat on the trailer. They take off for one of the lakes, and fish and water ski and picnic, and go back home. The next morning they are ready to go again. This is the kind of living environment that rural areas can offer, and which we believe is vital to an industrial society such as we have become. Factory workers ought not to have to live in smoke and congestion. And the encouragement of industry in the smaller towns and the rural areas will provide this quality living which we believe everyone is entitled to.

Senator **Allen**. A small city or town or a rural area wanting to attract an industry, wouldn't it be abolutely necessary that it have an adequate water and sewer system, that it have good schools, and the proper health facilities?

Mr. **Wagner**. It is absolutely essential. And this is one of the things that industries look for first. It is one of the things that we have stressed—the local community must provide first-class facilities. Its educational facilities are extremely important. The one complaint that we found in the early days was that industries would say, well, your labor is extremely interested and very capable, but they are not trained. So we have worked with educational systems in the area, and we try to see that they get together with the industries that are coming in, so that the kind of training that is needed is provided in the schools, either in the high schools or the vocational schools, or in the colleges and universities. This is a very, very important factor.

Senator **Allen**. This bank legislation, the bank provided by this bill, could it take over in the field that you discussed, that of the first buyer from the farmer, the middleman between the farmer and the retailer in the processing field, and the getting of the produce ready for market; would that be such a field as would be covered by the facilities of this bank?

Mr. **Wagner**. Mr. Chairman, I read the bill, and it is extremely complex. And I have more or less confined my testimony to the need for financing in the area. I believe you people who are responsible for the legislative process can develop the correct mechanics.

Senator **Allen**. If the bill could fill that need, it would be performing a good service, would it not?

Mr. **Wagner**. Yes, sir. There is a need for financial resources available to the kind of first buyer I discussed. Legislation to fill that kind of a need is important, we believe, to the further growth of industries in rural areas, and to the economic growth of the country.

Senator **Allen**. In your working with the small communities, the small towns, and the larger towns, for that matter, is there a need in those areas for community facilities and services that those communities are unable to meet because of lack of credit?

Mr. **Wagner**. Yes, sir; there surely is. They stretch themselves to the limit. One of the functions that we have performed in the TVA is to help them find all of the sources of credit that are available to them, but even so, they very often still fall short. And we are persuaded that the availability of additional funds for providing community services, community facilities, the sorts of things that industry look for—this need is essential.

Senator **ALLEN**. So that existing sources of credit, as good a job as they are doing—and we commend them for the job that they are doing—it still does not fill the bill, and you find that is true out in the field?

Mr. **WAGNER**. Yes, that is true. And it is true particularly when you talk about developments in some of the smaller communities, where the size investment that is needed to provide some of these community facilities is just beyond the scope of anything they have attempted to finance before. And so they are just reluctant to try it and usually the financing is not available to them.

Senator **ALLEN**. I was interested in your comments—and I have always felt and knew about your concern for the environment in the operation of TVA—that is one of your real interests, is it not, the work of TVA, that not only would you not damage the environment, but that you would seek to improve it?

Mr. **WAGNER**. Yes, sir; that is one of our concerns. We believe that the question of economic growth and quality living and a suitable environment are all one and the same thing. And as development takes place, if we are speaking about industrial development, it is important that industries must treat their wastes, if they have them, so that they are not pollutants.

Senator **ALLEN**. And cities as well.

Mr. **WAGNER**. The cities as well. And TVA itself. And we are attempting to do that. There are a great many things that all of us need to learn about how wastes should be treated and so on. But we think that these problems can be solved, and that they must be solved.

Senator **ALLEN**. Since TVA came into the valley in 1933, has there been a slowdown, if not in fact a reversal, of the outmigration from that area?

Mr. **WAGNER**. It certainly has been brought to a halt. If you look at the question of total population, it has almost been stopped, although there may in the last decade have still been a small outmigration. But if you look at workers instead of total population, there has been a small inmigration. So I think we can say generally that this stream of population which has flowed in the valley amounting to—Dr. Foster, do you know how many?

STATEMENT OF MINARD I. FOSTER, DIRECTOR, NAVIGATION DEVELOPMENT AND REGIONAL STUDIES, TENNESSEE VALLEY AUTHORITY, MUSCLE SHOALS, TENN.

Dr. **FOSTER**. Here are the population figures.

Mr. **WAGNER**. From 1940 to 1959, 625,000 people moved out of the valley region. From 1950 to 1960, it was 701,000 people. From 1960 to 1970, that dropped down to only 120,000 people. But in the latter part of that decade, we think that the outmigration just about stopped, and the outmigration of workers was reversed.

Dr. **FOSTER**. The immigration of workers was about a thousand a year in the late 1960's.

Senator **ALLEN**. That is mighty fine and very interesting.

I saw an interesting table in this week's U.S. News & World Report, showing, among other things, the salary or wages paid to factory workers in about 25 or 30 towns and cities throughout the country. And to my pleasant surprise, I noted that Birmingham's average annual wage per worker in industry was well above the national average. Do you know or would you feel that the same is true in the area served by TVA?

Mr. **WAGNER**. One problem of a newly industrializing area is that the first industries which you get are generally low-wage industries. And so you build your per capita income from manufacturing, slowly. Dr. Foster may know where we stand now with relation the the rest of the Nation.

Do you have that?

Dr. **FOSTER**. For the whole area, our average manufacturing pay is between 75 and 85 percent of the national average. Of course, this average includes rural industry if you take the southern metropolitan areas in the valley. The same think you saw in Birmingham is approximately true, maybe not quite as high because of the high-capital orientation of the steel industry.

Mr. **WAGNER**. I think this is one of the problems in industrializing an area, Senator. It takes time to develop the high-skill industries which are in turn the high-income, the high-wage, industries. The trend is moving in that direction in the Tennessee Valley. But as I say, the first industries that came had to use unskilled labor, because that is what was there, and so we are still in the building process in the area.

Senator **ALLEN**. Are not the skills of the people of the Tennessee Valley area increasing to a higher degree of proficiency?

Mr. **WAGNER**. Yes, sir; they are, certainly. The educational training is better, from elementary schools to the graduate level in the universities. The training in vocational schools is better. The new industries that are coming now, generally are those which require higher skills and which pay higher wages.

Senator **ALLEN**. What about the trade school program there, has that been beneficial throughout the area?

Mr. **WAGNER**. Yes, it has. And this is a matter on which we have worked with local groups in this tributary area development program of ours that you may be familiar with. We have helped them to establish trade schools, and worked with the educational institutions in the area. Sometimes we have helped them initially, and got them together with the industries they serve to see that the kind of training that they were giving was what was needed in the industry. It has been very helpful. And I think there have been problems of financing those things sometimes.

Is that correct, Dr. Foster?

Dr. **FOSTER**. Not in Alabama, but in some of the other places. The record in Alabama is very good.

Senator **ALLEN**. I am glad to hear it.

You are interested, you and your associates and the TVA generally, in seeing a good balance between agriculture and industry in the area?

Mr. **WAGNER**. Yes, sir, we surely are.

Senator **ALLEN**. And in order to have such a balance, you are going to have to attract still more industry, are you not?

Mr. **WAGNER**. We would like to see some higher value industry. And industry changes. There will be need for financing industry in the future, and there will be needs because of changing agriculture in the future. But you say it very well, that we are interested in a balance between the two. We believe that if the region is to reach its full potential, every resource that is available must be used and must be developed.

This, for instance, is why we have encouraged with the agriculture extension services the growing of specialty crops which I mentioned in my statement. This is an opportunity where there are small acreages and plenty of labor available to use intensive agriculture and produce very substantial income increases. I think it is interesting that although the percentage of the work force now engaged in agriculture is only a small fraction, perhaps not much over 10 percent of what it was in 1933, the agricultural production, either in dollars or in goods itself, is much greater than it was. So many fewer people are producing much more on the farm. And this we think is an important part of the balanced picture that you referred to.

Senator **Allen**. What about power consumption there in the TVA area? What is your projection over the next 10 years?

Mr. **Wagner**. Well, the power consumption in the area has just about doubled every 10 years in recent decades. And we don't see any slowdown in the demand for it.

Senator **Allen**. Do you plan on meeting that demand?

Mr. **Wagner**. Yes, sir, we plan on meeting that demand. We have nearly 20 million kilowatts of generating capacity now in service, and about another 16 million kilowatts under construction or on order. It is a very, very heavy program. And it, of course, is geared to the need of the area for industry, the need of people in their homes for quality living there, and the needs of farm people for electricity in the farming operation.

Senator **Allen**. What about a grid system for the country or for sections of the country?

Mr. **Wagner**. We have very strong interties with all of the neighboring utilities which surround us. And on occasions of emergency or power shortages, we can supply them or they can supply us. We do that regularly.

We also have some arrangements—for example, to the southwest of us, the utilities there have a very heavy summer peak from air-conditioning. In our area our peak load comes in the wintertime from electric heat. So in the summertime we send a large amount of power to them, and in the wintertime they send it back to us. Interties of this kind are very useful, and really essential to the continuity of power service in the Nation.

Senator **Allen**. Can electricity be carried longer distances now than it formerly could?

Mr. **Wagner**. Yes, it can, by using higher voltages. Our top transmission voltage for many years was 161,000 volts, and now it is 500,000 volts. Even higher voltages are used in some places. Some work is being done on direct current transmission which further reduces the loss. The problem of long-distance transmission is transmission line losses, electrical losses from moving the electricity over the wires. Higher voltages reduce those losses. There still, of course, is a limit to how far you can economically transmit it. It is a question of whether it is cheaper to generate it where it is needed or transmit it from some other source.

Senator **Allen**. Senator Dole, we are delighted to have you meet with us.

Senator **Dole**. Thank you. I am a little late, but I had to go to another meeting.

Senator **Allen**. Mr. Wagner, apparently we have all of the factors that are necessary for the development of our area there. And I am sure the same situation would apply throughout all rural America. We have the factors necessary for growth and for development of the rural economy, except the availability of credit and the thing that the use of credit would make possible; is that correct?

Mr. **Wagner**. Certainly, that is an important missing factor, that surely is correct.

Senator **Allen**. We have got the people, we have got the resources, the power, the water.

Mr. **Wagner**. That is correct. It is the missing factor in many instances.

Senator **Allen**. And if we could provide a credit system that would fill some of the gaps left by our present farm credit system, it would go a long ways toward solving some of the problems of rural America, would it not?

Mr. **Wagner**. We believe it would, yes, sir.

Senator **Allen**. Thank you very much.

Senator Dole, Mr. Wagner of the TVA has been testifying. And I have been asking some questions.

Senator **Dole**. I don't have any questions. I am really not prepared. I may think of some after you have gone back to Tennessee.

Senator **Allen**. Mr. Marquis, do you have any information you would like to volunteer?

Mr. **Marquis**. I have nothing to add, sir.

Senator **Allen**. Mr. Foster?

Dr. **Foster**. No thank you, sir.

Senator **Allen**. Mr. Williams?

Mr. **Williams**. Nothing from me, sir.

Mr. **Wagner**. I would just like to say in winding up, Senator, that we do appreciate the opportunity for TVA to come and testify before your committee, because we think that the Tennessee Valley is an area where we have worked intensively for three generations—nearly four generations, not three generations now—to try to solve some of the kind of problems that your committee wrestles with. And while I would not propose to say we have got them all solved, we think we have made some progress in the directions that you gentlemen have been pushing. And if this experience is useful to you, we are delighted.

Senator **Allen**. It certainly is useful. You have made some splendid suggestions. And I am certainly interested, among many of the things you brought out, particularly this first buyer concept. I believe there are some wonderful possibilities there. And I do believe that a co-op could come in and become first buyer in many instances. I feel like this is an area where this new bank concept could make credit available with very tangible results.

So I appreciate it very much. We are always glad to have you with us. Your testimony was excellent and will be most helpful to the committee in devising a program to rejuvinate town and country America.

Mr. **Wagner**. Thank you. It is good to see you.

Senator **Allen**. The committee will stand in recess according to the schedule until 1:30. At that time if Mr. Richard T. O'Connell will be called if present, and we will proceed with his testimony. If not, we will go down the list in the order named.

(Whereupon, at 11:40 a.m., the committee was recessed until 1:30 p.m. of the same day.)

AFTERNOON SESSION

Senator **Allen**. The subcommittee will please come to order.

Mr. O'Connell, you may proceed, please.

STATEMENT OF RICHARD T. O'CONNELL, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. **O'Connell**. Thank you, Mr. Chairman.

My name is Richard T. O'Connell. I'm secretary of the National Council of Farmer Cooperatives. A more detailed description of the national council accompanies this statement.

We appreciate the opportunity to express our views on S. 2223 and the Rural Community Development Bank Act.

On June 17, 1971, we appeared before this committee in general support of rural development. In cross-examination we gave early support to the establishment of a rural development bank.

We view the differences between S. 2223 and the Rural Community Development Bank Act as more of form than substance. They share the same objective, but are structured somewhat differently. In fact, both are patterned to a degree after the highly successful Farm Credit System.

We believe the establishment of a rural development financing system, if properly administered, will help break the cycle of what is happening in rural America. The cycle, as we all know, is: (1) The rural resources are strained to educate the youth of rural America who promptly take their talents elsewhere upon completion of their education, (2) the resulting out-migration, particularly of young people, diminishes a source of potential leadership and income and (3) the uncertainty and high risk of loans in many rural areas leads rural bankers to invest a significant portion of their loanable funds in government securities and much of the remainder in short-term consumer lending.

One major source of nonagricultural funds in rural areas comes from the correspondent banking system. It is effective to some degree in providing rural investment funds. However, from a practical standpoint, the opportunities for greater return on capital are in the urban and suburban areas. This forces metropolitan correspondent banks to give a secondary priority to the amount of funds flowing into rural America.

Without some system of breaking the cyclical patterns of migration and low investment flow, conditions in rural America will either retain their status quo or deteriorate. Therefore, we believe a rural development bank system will be effective in injecting new funds into rural America.

There may be some reluctance to establishing a new Federal agency, but we do not see any alternative. The Farm Credit System is an agency into which the rural development bank could be structured, but we believe it is unwise to mix a Federal lending program into an already existing program which, in fact, has reached the goal of retirement of Government capital and achieved a more independent status.

We urge caution in the utilization of grants as part of the collateral in obtaining loans from a rural development bank. This may reduce the feeling of responsibility the borrower may have if a portion of the borrower's capital is not involved in the proposed collateral.

We believe strongly the program must initially show its management effectiveness. Otherwise, the image it projects may allow the opponents of the agency to have the opportunity to criticize the management of the agency and thus possibly reduce the effectiveness of the program.

We applaud the idea proposed in the measure which eliminates overlapping of lending functions by the proposed agency with other existing governmental lending institutions. We also believe it's beneficial that private lending institutions will have an opportunity to participate in this program so as to gain support and experience from the private banking system. We believe the establishment of a rural development bank will be a step forward in meeting some of the problems of this country and we urge its adoption by the Congress.

We have a few minor amendments which we will be pleased to discuss later with the staff of the committee.

We appreciate the opportunity to express our views.

Senator **ALLEN**. Thank you very much, Mr. O'Connell. We appreciate your coming before the subcommittee and giving us the benefit of your views.

Your Council of Farmer Cooperatives, is the membership a group of cooperatives? You don't have individual members, do you?

Mr. **O'CONNELL**. Our direct memberships are generally visual cooperatives. And they have affiliated with the farmer cooperatives. And the farmer, himself, belongs to the local.

Senator **ALLEN**. They are in a private sector?

Mr. **O'CONNELL**. Yes, sir.

Senator **ALLEN**. Do you contemplate that any of your cooperatives would be barred from the bank by this legislation?

Mr. **O'CONNELL**. No, sir. We noted in the bill that if they were eligible to borrow from the bank for cooperatives, they would not be eligible to borrow from this bank. And this is the way we prefer it.

Senator **ALLEN**. In other words, the institutions contemplated by this legislation would be designed to take care of the credit means that are not being met through other means?

Mr. **O'CONNELL**. Yes, sir.

Senator **ALLEN**. Would you approve that concept?

Mr. **O'CONNELL**. Yes, sir.

Senator **ALLEN**. So, actually, there is no encroachment here on either the public sector or the private sector in the institutions contemplated by this legislation?

Mr. **O'CONNELL**. Yes, sir.

Senator **ALLEN**. And if the money of the creditors is available from other sources, then a borrower would not be eligible to borrow from the bank?

Mr. **O'CONNELL**. That is right.

Senator **ALLEN**. What do you think the definition of the rural area provided by the bill of everything up to 35,000 in population being classified as rural? Do you think that that would cover the rural areas, or do you feel that that figure should be amended?

Mr. O'**Connell**. I believe that figure should be amended, Senator, increased to 50,000 persons. And the reason I offer that suggestion is that the Bureau of the Census, under their regular reporting, are available to set aside by definition data on cities of 50,000 or less which are not a part of the metropolitan area. And as a member of the Census Agriculture Committee, Advisory Committee, I know how the statisticians would get the empirical base set up. And they like to keep it. And I can see why, when it performs a very useful purpose.

So I would suggest that you consider changing that to 50,000 because then it takes in a more easy defined area, and you don't have to start up a new program to find the information you need.

Senator **Allen**. You would feel that everything up to a population of 50,000 should be covered by the bill?

Mr. O'**Connell**. Yes; I think the jobs, we will say, in the city of 50,000, in the metropolitan areas in most of the country would largely be due to the agricultural rural business.

I recall a study even in a much larger city, done by the Kansas City Federal Reserve Bank, in which in the city of Kansas City, almost 40 percent of the jobs in that city, with a metropolitan area of a million or more people, were related to food and agriculture. And, of course, you understand that Kansas City is a very agriculturally oriented town. And that may not follow through in all cities of size. So I think that cities of 50,000 or less would easily be defined in most areas as being rural or agriculturally oriented.

Senator **Allen**. You pointed out that the cooperatives you represent would be able to borrow from the Bank for Cooperatives.

Mr. O'**Connell**. Yes, sir.

Senator **Allen**. Of course, their funds are limited, so any spillover or overflow from the Bank for Cooperatives, those applications would be eligible under this bank?

Mr. O'**Connell**. There would be a few cooperatives which are not eligible to borrow from the Bank for Cooperatives, which probably can be considered to borrow from the bank. There are some in rural areas we know of right now that informed us that they are ineligible to borrow from the Bank for Cooperatives, and have not been able to get funds.

Senator **Allen**. Even those that are eligible, there is not enough money available.

Mr. O'**Connell**. That has been a problem. The money market is getting tighter all the time, and it is harder to get more money out of the urban money markets, particularly in New York.

Senator **Allen**. Do you feel that there is a need for the bank contemplated by this legislation; do you feel that it fills the definite need, and that it is sound?

Mr. O'**Connell**. Oh, yes; I do. I think it fills a void. As I remember my answer on cross-examination in June, it fills a void similarly between the farmers, the Farmers Home Administration, and what has been set up in the Farm Credit System. And I think there is a void there in making funds available to rural areas, that needs to be filled. And a concept that will fill it will certainly score.

Senator **Allen**. What areas would you envision that are not covered by existing law would be opened up by this legislation?

Mr. O'CONNELL. Oh, I think there will be smaller rural business that will be eligible for loans under this, which will not be able to get it from other sources. I think part of it will be orientation to lending funds in the rural areas to this type of business. I think there will be a few cooperatives which would be eligible. I think there would be some rural nonfarm cooperatives who might be eligible for it. I think there are several groups within this area which could be significant borrowers, this type of bank where they cannot get funds now.

Senator ALLEN. Do you envision that this could be used as a vehicle for the creation of job opportunities in rural areas?

Mr. O'CONNELL. Yes, I think any time you create investment in a given area, that creates business which, in turn, creates jobs. So I think it would be an effective means of developing jobs in rural America.

Senator ALLEN. What about making available more and better community services?

Mr. O'CONNELL. Yes. I think in the areas where these needs are not being met, say, by the Farmers Home Administration, I think we could move into that area, too, community needs. I am thinking specifically of sewage, water, and so forth.

Senator ALLEN. I know your thought that grants should not be used as collateral for loans. Now, by that, do you mean that an entity should not obtain a grant and then proceed to get a loan; in other words, part of the cost to be covered by a grant and the rest covered by loan?

Mr. O'CONNELL. I would like to see, if they can get a grant, say, from another source—what we don't want to see is the same entity which is lending them money, also granting them money. It would be better to have a longer term, lower collateral loan, or even no-collateral loan, so you put it in the proper perspective of repayment. And if they get a grant, a no-strings-attached grant, from another agency, we will say a foundation or something, and then apply that as collateral, I think that would be a different matter than getting the grant and the loan from the same institution.

Senator ALLEN. In other words, you think there should either be some equity in it or assistance from a nonrelated source?

Mr. O'CONNELL. Yes, sir.

Senator ALLEN. Now, under the present system, doesn't the Farmers Home Administration make grants and loans?

Mr. O'CONNELL. Yes.

Senator ALLEN. They are coupled together?

Mr. O'CONNELL. Yes.

Senator ALLEN. Where the municipality, say, the small town, is applying for a sewer system, and they have no funds, does the Farmers Home Administration sometimes provide the proceeds as part of the grant and part loan?

Mr. O'CONNELL. Yes, I understand that.

Senator ALLEN. But you feel it should be apart from that?

Mr. O'CONNELL. I am thinking more of the business aspect of developing a plant or a factory, or something else in the rural area, possibly the municipality might take on a different hue. But when we made our approach on this, we were concerned that a grant would be received from the same type agency as the loan. And if this is going to be successful, as I also said in my statement, it has got to get off the ground properly with the proper publicity and proper image in order for it to be successful; otherwise, if the Congress creates this and it becomes unpopular, then there would be problems.

Senator ALLEN. The same thought was advanced, I believe, by Mr. Carpenter this morning. He was suggesting that if it really didn't fund this properly, didn't promote it in a dynamic way, that we may just as well not have this legislation. But you feel that the legislation is sound; that with proper funding, proper approach, and proper administration, that it can be of service to rural areas, that it will create jobs, that it will help to curb the massive outward migration from the rural areas?

Mr. O'CONNELL. Yes, sir. I think one important point is that the source of the funds will be the regular money markets. The success of the organization will be largely geared to the acceptability of the ventures in the New York money market.

Senator ALLEN. Do you think it would be better to have all the rural loan incentive payments in title I rather than a separate agency under title II?

Mr. O'CONNELL. I would rather see everything under title II. That is my view.

Senator ALLEN. What is your theory?

Mr. O'CONNELL. Again I think from a matter of coordination and getting everything under one head, just from my experience, more than the facts I can give you, the fewer number of people you can have involved in a situation, the better are your chances of getting competent people. So on that basis, I think we would prefer title II.

Senator ALLEN. Some suggest possibly that all of the machinery here can be drafted onto the present farm credit system. I notice that you do not think that will be wise, because that is already passed into private hands, it is borrower owned.

Mr. O'CONNELL. Yes.

Senator ALLEN. And rather would be a drafting on of a Federal agency to what is in a sense now, I guess, a quasi-public body.

Mr. O'CONNELL. No; we would not want to see it drafted onto the farm credit system. We think you would run into a great number of problems and policies in administration, and the relationships which have been developed now over 30 years of the operation of the farm credit system.

Senator ALLEN. By the borrowers acquiring stock in the bank in the manner of the present farm credit system, do you feel that that is a sound approach to allow the eventual ownership to pass to the borrowers?

Mr. O'CONNELL. Yes, sir. That is representing an organization which pulled hard for the Farm Credit Act in 1953, so we certainly score that in the Rural Development Bank.

Senator ALLEN. Hasn't the farm credit system proved to be an outstanding success?

Mr. O'CONNELL. Yes, sir.

Senator ALLEN. Is there any reason, then, in your view, that if this bank is properly managed, properly supported, that it, too, can be an outstanding success with a minimum of eventual cost to the Government?

Mr. O'CONNELL. Yes, sir

Senator ALLEN. Is the agricultural economy of the Nation, seated as it is in our rural areas, in need of additional credit?

Mr. O'CONNELL. The agricultural economy is such that it is going to need a tremendous amount of credit in the next 10 years on this bill, barring unforeseen circumstances. So that in itself is going to be a tremendous drain on the farm credit system, of the banks and insurance companies that normally loan in agricultural pursuits. And the money supply in the rural areas, as we visualize it, will become tighter and tighter in the next 10 years.

Senator ALLEN. Would not the farmers benefit from the nonfarm credit uses provided by the act?

Mr. O'CONNELL. Yes, sir. Prosperity for one is prosperity for another in any part of rural America. If the small towns are doing poorly, it doesn't help the farmer. And, conversely, if the farmers are doing poorly, it doesn't help the small towns around them.

Senator ALLEN. Mr. O'Connell, if you have suggestions that you plan to make to the staff, I might say that the authors of the bill are interested in receiving your suggestions. They feel like they can profit, and legislation can profit, by suggestions from knowledgeable people and organizations. So we welcome your views, and we welcome all suggestions as to how the legislation can be improved, and how the approach can be improved upon, and how the legislation can be a vehicle for promoting the development of our rural areas.

Mr. O'CONNELL. I will be happy to cooperate with you.

Senator ALLEN. Thank you. We appreciate your help and suggestions and your appearance before the committee.

Mr. O'CONNELL. Thank you very much.

Senator ALLEN. Thank you, sir.

Mr. Carroll, will you proceed, please?

STATEMENT OF THOMAS E. CARROLL, ASSISTANT ADMINISTRATOR, ENVIRONMENTAL PROTECTION AGENCY

Mr. CARROLL. Mr. Chairman, I have a prepared statement, if I may read it.

Senator ALLEN. Yes, sir.

Mr. CARROLL. I have with me today, Mr. Louis DeCamp, of the Office of Water Programs.

Mr. Chairman, it is a pleasure to have this opportunity to appear before you to discuss certain aspects of S. 2223, a bill which would amend the Consolidated Farmers Home Administration Act of 1961.

The Administration's overall position on this bill has already been the subject of testimony before this subcommittee. In his July 23, 1971, testimony, the Under Secretary of the Department of Agriculture, J. Phil Campbell, supported the intent of S. 2223 to channel more funds to rural communities, but advocated broader programs—general and special revenue-sharing—which integrate present diverse and often divergent programs to accomplish that intent. He referred to the President's title 9 report in support of that position.

In my testimony today, I will limit my comments to matters which are specially the concern of the Environmental Protection Agency:

The application of EPA's existing water pollution control program to rural areas—its impact and the assistance it provides.

How this program will cover rural areas when expanded and extended as provided in the Administration's proposed amendment to the Federal Water Pollution Control Act.

Our position on particular provisions of S. 2223 that relate to water pollution control and other environmental protection activities.

First, how are water quality standards set and enforced, particularly as they apply to rural areas? Water quality standards have now been established under the Federal Water Pollution Control Act, as amended. The States, through public hearings, determined the uses to be made of all interstate streams, numerical criteria to protect those uses, and an implementation and enforcement plan. These items comprise the water quality standards which, after adoption through State administrative processes, were submitted to the Environmental Protection Agency and its predecessor, the Federal Water Quality Administration, for review and approval. Judgments as to the acceptability of the numerical criteria are based upon scientific and technical recommendations made by the National Technical Advisory Committee on April 1, 1968. Standards are adopted by each State acting individually but they are reviewed for regional consistency.

The enforcement of water quality standards is governed by section 10(c)(5) of the Federal Water Pollution Control Act which provides that matter which is discharged into water so as to reduce the quality of such water below the water quality standards may be abated in accordance with the provisions of section 10(g) (1) or (2) of the Federal act. Those sections in turn authorize the Administrator to request the Attorney General to commence suit against a polluter if the discharges under consideration can be shown to affect health or welfare. The Governor's consent is required where the pollution effect is intrastate. At least 180 days before any abatement action is initiated under subsection 10(g) (1) or (2), the Administrator is required to notify the violators and other interested parties of the violation.

No distinction is made between rural and nonrural areas in setting or enforcing water quality standards.

The impact of establishing water quality standards for streams in rural areas may be significant depending upon the condition of the water prior to setting the standards and what degree of water quality is desired by the people in the area who determined the use to be made of the water. In cases where relatively common waste treatment processes need to be upgraded or treatment plants constructed, the impact may not be great.

This picture may change in areas where the water pollution problem is caused by runoffs from feedlots, fertilization practices, or other agricultural water uses. Control of pollution from such nonpoint sources is more difficult and, in some instances, not practicable given existing technology.

Costs of waste-treatment facilities for rural communities will vary, but a good example is provided by a common type of water pollution control facility constructed for communities with populations near 5,000, the extended aeration plant. An extended aeration plant for a design population of 5,000 is estimated to entail costs approximately as follows:

Construction of the plant	$386,000
Construction of the interceptor sewer	190,000
Engineering services for both the plant and sewer	58,000

These estimates do not include interest and amortization nor a collection sewer system, which is ineligible for EPA grant assistance.

Annual operation and maintenance cost for such a system would be in the range of $22,000.

The Federal water pollution control program has in the past provided substantial assistance to smaller communities. In the past the great majority of projects supported under the Federal Water Pollution Control Act—85 percent of the total—have been placed in communities of less than 25,000 persons, and 50 percent in communities of less than 2,500. As of April 30, 1971, out of a total of 11,761 projects, 7,318 were in communities of under 5,000; of these 5,653 were in communities of 2,500 or less.

Major differences between the FHA grant program and the EPA program are the level of funding and eligible grant recipients. The FHA basic grant is authorized at 50 percent whereas an EPA grant is limited to 30 percent and can go up to 55 percent only if the State pays 25 percent of the cost of a project and certain water quality requirements are met.

FHA grants may be made to "associations, including corporations not operated for profit, and public and quasi-public agencies" whereas EPA grants may be made only to States, municipalities, and interstate and intermunicipal agencies. To discourage "shopping" by prospective grant recipients, FHA has informally agreed to limit its grants to the EPA maximum and to consider only those applicants who have not been able to obtain financing through EPA due to the lack of available funds to cover such projects. However, as I will emphasize in more detail in my statement, the fractionalization that would result from increasing non-EPA programs in this area is undesirable.

As I am sure you know, the Administration has proposed a very substantial expansion of the sewage treatment plant construction plant program in S. 1013, following a survey of sewage plant construction requirements nationwide.

We have requested sufficient funds, $6 billion, to cover the Federal share of all municipal treatment water pollution control needs. Our $12 billion estimate of total needs was determined from information provided by the States, direct contact with major cities, and our own studies and statistical analyses. Our estimates are intended to meet all eligible requests for funds, regardless of how small the community or the request is.

In order that rural communities will meet water quality standards, which will be enforced with as much vigor in rural areas as elsewhere throughout the Nation, we have taken into account their present financing needs in the following way: In December 1970, EPA estimated that the cost of constructing sewage treatment facilities in municipalities throughout the Nation to meet water quality standards and enforcement requirements, through fiscal year 1974, was approximately $12 billion, as noted above. Given that the approximately 9,000 projects which comprise the $12 billion are spread in communities throughout the country in the same manner as projects previously assisted by EPA, it is estimated that 17 percent of the $12 billion is for communities with populations of 5,000 or less. Therefore, approximately $2 billion of the construction needed through fiscal year 1974 would be in municipalities with populations of 5,000 or less.

I turn now to S. 2223.

Title I would broaden the applicability of the act by increasing the types of projects eligible for aid under it, including pollution control, waste disposal, and water supply projects. Farmers Home Administration grant and loan authority would increase from $100 to $300 million. Further, aid available under the act would include both direct and insured loans in addition to grants. Title I also increases the size of communities eligible under the act, to 35,000 persons from 5,500.

Title II creates a Federal Rural Development Credit System which would make loans available to public and private borrowers in rural areas, as defined above. Borrowers would be eligible only if they could not obtain credit elsewhere, but loans could be obtained for a wide range of rural community development projects. The Credit System is modeled on and would not replace the existing Farm Credit System, and although initially capitalized by the Federal Government at $2 billion, it would eventually, under required loan terms, be borrower owned.

Title II further provides for technical assistance on eligible projects, which would include (sec 710) "water and sewage facilities and air pollution controls" as well as "water, and water distribution, and solid waste disposal." The same section contains authority for research and information gathering.

Our concern with S. 2223 stems from the following interrelated considerations. Does the proposed legislation cause duplication of effort or increase the number of Federal agencies providing a specific service, or services? Would regional planning and pollution-control programs be adversely affected by the introduction of another project-financing agency? Are Federal pollution-control resources used efficiently to achieve maximum effect?

In our view, increasing the types of projects eligible for grants and loans, and the funds available from FHA, would be undesirable. To do this would further divide a Federal Government function among its agencies despite the fact that the administration has the objective of consolidating such activities, and despite the closely related planning and priority setting functions in the Environmental Protection Agency. We firmly believe that water pollution control programs should be concentrated in EPA. One of the principal reasons for the creation of EPA was to consolidate Federal pollution control and environmental protection functions in a single agency. Only through tight single agency control can the resources devoted by the Federal Government to pollution control be used with the greatest efficiency and impact.

Although the amount of title I funds to be channeled into waste treatment projects is not specified, there would appear to be no real justification for increased funds for this purpose in view of past and proposed waste treatment works programs in EPA described above. Similar conflicts may exist between the Farmers Home Administration programs and the water and sewer programs of HUD.

Section 104 of title I provides that no grant shall be made if the project or community development is inconsistent with any planned development officially approved by a competent authority for the area in which the rural community is located. The section further stipulates that no loan shall be made when the project is inconsistent with multijurisdictional planning, and development district areawide planning.

This determination will apparently be made when the applications are reviewed and commented on by the multijurisdictional agency, or county or municipal government, having jurisdiction over the area in which the proposed project is located. This change is desirable. EPA and HUD have entered into an agreement standardizing planning requirements for grant-assisted projects. Section 104 can be interpreted as encouraging joint FHA–EPA–HUD standards. However, we would prefer that the bill stipulate such standardization, as well as stipulate federally recognized multijurisdictional planning authorities. Finally, in line with our principal concerns, we would prefer that any such program be required to be consistent with EPA river basin water pollution control planning.

Similarly, where title II, section 710, provides for technical assistance, we are concerned about division and duplication of effort. Technical assistance personnel would cover, among other things, operation and administration of Federal grant programs; administration, development, and operation of community facilities: and technical data and requirements in a number of specified fields. Among those listed are water and sewage facilities and air pollution controls; water, and water distribution, and solid waste disposal; multipurpose water development; and comprehensive area planning.

We would point out that most of these are functions already provided for by the Congress in the statutory authorities under which this Agency operates, and that the need for another technical staff in another Federal agency simply does not exist.

In summary, we want to emphasize that we do not oppose efforts to channel to rural areas essential financial resources which can be applied to the betterment of those areas by revitalizing the rural economy. For the reasons given, however, we feel that provisions of the proposed legislation are undesirable in view of EPA's authorities, plans for the future, and the success we believe we will experience in applying them to the needs of rural areas.

This concludes my prepared statement. I would be pleased to answer any questions you may have.

Mr. Chairman, if I may, in addition to the prepared statement, I thought it might be of interest to this committee that we had a press release that came out just this week, in the area of solid wastes. My testimony directed itself primarily to the area of water and rural facilities. This release announced new EPA regulations for section 208 under the Resource Recovery Act of 1970. Section 208 is primarily concerned with a systems approach to community recycling. One of the major provisions of these regulations requires that 30 percent of the grant funds are reserved for projects for rural areas. And I just cited that to indicate to you that no only in water, but also in solid waste and resource recovery areas, we are quite concerned with the problems of rural communities.

Senator **Allen**. Thank you very much, Mr. Carroll. Do you want to put the release in as part of your testimony?

Mr. Carroll. I would be happy to do so.

Senator Allen. Whatever your wish is. If you would like to, we would be glad to include it.

(The press release follows:)

[Environmental News, Environmental Protection Agency, September 18, 1971]

EPA Issues Regulations on Solid Waste Grants Program

The Environmental Protection Agency has announced the adoption of the final regulations for administering the solid waste grants program under the Resource Recovery Act of 1970. This Act limits these grants to nonprofit groups such as State and local governments, universities, and research foundations.

EPA Administrator William D. Ruckelshaus said, "The new regulations will set the ground rules for what hopefully will mark the beginning of a new approach in the way this Nation handles and disposes of the vast quantities of residential, commercial, industrial, and agricultural wastes that are generated. The 1970 legislation represents a significant shift in emphasis from disposal to recycling and recovery of materials and energy."

Section 208 is a key provision of the Act. This provision authorizes grants to State, municipal, interstate or intermunicipal agencies for the demonstration of resource recovery systems, and for the construction of new or improved solid waste management facilities which advance the state of the art. The new regulations not only set the ground rules for administering the grants program under section 208, but also provide for projects in communities of varying sizes, and establish deadlines for submitting and acting on grant requests.

The major provisions of the regulations covering section 208 are:

Thirty percent of the grant funds are reserved for projects in rural areas.

The balance—70 percent—of the funds is generally earmarked for urban areas.

The Federal share for resource recovery demonstration and construction grants may not exceed 75 percent of the costs; however, grants for the construction of new or improved facilities where only one municipality is involved are limited to a maximum of 50 percent.

Section 204 demonstration and research grant regulations have been changed to reflect the increased share of Federal support. The ceiling on the maximum Federal share of funding for projects to study, test, and demonstrate the technical and economic feasibility of new and improved techniques, processes, and systems has been increased from 66⅔ percent to 75 percent of the cost of any project. This makes the Federal portion equal to the maximum award authorized for section 208 resource recovery demonstration grants.

The regulations applicable to section 207, which provides for solid wastes planning grants, have been revised and expanded to reflect the extension of eligibility not only to State and interstate solid waste planning agencies but also to local and regional solid waste planning agencies. The ceiling on the Federal share of participation for local and regional agencies is 66⅔ percent in the case of a single municipality and 75 percent in the case of multimunicipal areas.

The purposes for which planning grants may be made have been expanded to include developing (1) proposals for section 208 demonstration and construction projects, and (2) plans for the disposal of abandoned motor vehicles.

Sections 204 and 210 training grant regulations provide for awards to public and private nonprofit groups (1) to develop programs to train persons in the management, supervision, design, operation, and maintenance of solid waste disposal and resource recovery equipment and facilities; and (2) to prepare instructors and supervisory personnel to train or supervise persons in such work.

The new regulations were published in the Federal Register on September 17.

Senator Allen. Mr. Carroll, we appreciate the testimony that you have given. We appreciate the concern that the Environmental Protection Agency has about protecting environment. We are indeed pleased with the fine work that the Environmental Protection Agency is doing in many sectors.

I note that your conclusions, after discussing pending legislation, are that you feel the provisions of the proposed legislation are undesirable in view of EPA's authority and plans for the future on the success you believe you will have in applying them to the needs of the rural areas. Your area projection, then, has to do primarily with that phase of the operation and scope of the proposed bank dealing with grants for water and sewage systems; is that not correct?

Mr. CARROLL. That is correct. However, not including the collection system, which is really a problem for HUD, my statement relates primarily to sewage treatment plants which would be financed under title I of the bill, amending FHA grants and loan authorities.

Senator ALLEN. But in the overall field of providing additional credit for rural development, your department would have no objection, or would voice no opinion to this legislation, except as it deals with environmental aspects and the possibility that it might encroach upon or, in some way, come in contact with or establish a parallel facility with that of EPA?

Mr. CARROLL. That is correct, with respect to providing credit. Where Federal funds are involved, my testimony states that we prefer the administration's proposal relating to revenue sharing.

Senator ALLEN. Then, basically, you would have no objection to the legislation, or EPA, as such, would not have any objection to the legislation, except where it may go over into the field of environmental protection; is that correct?

Mr. CARROLL. That is correct.

Senator ALLEN. So any other current needs of the rural community, you would have no objection to it applying such needs?

Mr. CARROLL. That is right.

Senator ALLEN. Do you feel that the authority and the enabling legislation and the proposed appropriations for the Environmental Protection Agency, impact, the whole field of environmental protection are adequate to do the job that is necessary for providing water and sewage systems for those areas of the country that need them?

Mr. CARROLL. Yes; I do. I think, Mr. Chairman, that one of the historic problems has been that, as I indicated in my opening statement, not only were there differences in grant conditions between FHA and EPA, but there were insufficient funds appropriated to cover all of the requirements of the many municipalities. It was because of this problem that we took a national need survey in December of 1970, which covered all States, and which measured against a variety of indices the requirements. And we feel that there is now adequate authorization in our requested administration bill which, as you know, has not yet been passed by the Congress, to cover all needs, both large urban areas and rural areas.

Senator ALLEN. Do you know how many cities and towns in the country are without a water system?

Mr. CARROLL. I do not.

Senator ALLEN. Has it been in the neighborhood of 35,000 or 40,000?

STATEMENT OF L. E. DeCAMP, ASSOCIATE DEPUTY DIRECTOR, OFFICE OF WATER PROGRAMS, ENVIRONMENTAL PROTECTION AGENCY

Mr. DECAMP. It is in the neighborhood, yes, Senator.

Senator ALLEN. And would you have any idea as to how many cities and towns want and need adequate sewage systems?

Mr. **DeCamp.** Approximately the same number, from 40,000 to 45,000.

Senator **Allen.** How many applications have you all been processing a year, and at what rate are you processing applications for loans and grants in these areas?

Mr. **Carroll.** I believe it is proposed that this year we will process at least 2,000 grant applications. We have no loan program.

Senator **Allen.** Would that be 2,000 combined water and sewer?

Mr. **DeCamp.** Those grants are for construction of sewage treatment facilities.

Senator **Allen.** What about water systems then?

Mr. **Carroll.** We have no program of that nature.

Senator **Allen.** You don't have any program, then, for providing cities with water systems?

Mr. **Carroll.** Water supply?

Senator **Allen.** Yes.

Mr. **Carroll.** No, we don't.

Senator **Allen.** It is water quality that you are concerned with?

Mr. **Carroll.** The water quality of the rivers and streams.

Senator **Allen.** But you do not look into the quality of the water of a public water system, then?

Mr. **Carroll.** We have a water hygiene program which is, primarily concerned with drinking water quality standards. and the protection of sources of drinking water for interstate carriers.

Senator **Allen.** Do you have loan grant programs to individuals for water supply?

Mr. **Carroll.** We have no loan or grant programs to individuals or municipalities for water supply.

Senator **Allen.** So, actually, the chief concern of the EPA would be in the waste disposal aspect of the area of operation of the bank?

Mr. **Carroll.** That is correct.

Senator **Allen.** That might constitute a rather small fraction of its overall activities, would it not?

Mr. **Carroll.** I am not certain I understand the question, sir.

Senator **Allen.** The loans and grants for the purpose of providing communities with sewage disposal systems might well constitute a small portion of the overall activities of the bank contemplated by this legislation?

Mr. **Carroll.** That is correct, in terms of the variery of municipal services that are in the legislation.

Senator **Allen.** So then, actually, the objections that EPA is voicing are merely to providing another agency handling grants and loans on sewage systems, isn't that right?

Mr. **Carroll.** Yes, sir. It is not only a question of funding, but it is a question of parallel technical assistance programs and guidance programs. We are trying hard to work with the States to adopt statewide patterns of river basin planning. We are working with them on cost-effective methods of constructing their plants, which in certain cases may be combined in a number of communities rather than having separate plants for each community. We think that another agency concerned with the same problems would just lead to a proliferation of overlapping confusion.

Senator **Allen**. I note that the EPA grant is limited to 30 percent, and can go up to 55 percent only if the State pays 25 percent of the cost. Now, that 25 percent that the State pays is that what raises it from the 30 to the 55, or is that a rise of 30, from 30 to 55, if the States put up an additional 25?

Mr. **Carroll**. If the State puts up 25 percent and enforceable water quality standards have been established our share could go to 55, so the combined State-Federal share is 80, and the local share is 20.

Senator **Allen**. I see.

Are many States participating in this program?

Mr. **DeCamp**. Forty States at the present time are participating in this program.

Senator **Allen**. Are participating fully?

Mr. **DeCamp**. Well, it can't be halfway, either they have a program which by legislation provides that they will pay up to 25 percent share, or they don't have that legislation, in which case they don't qualify.

Senator **Allen**. I see. Now, where would the other 20 percent come from?

Mr. **DeCamp**. From the municipality itself.

Mr. **Carroll**, Municipal bond issues or other fund raising on the part of the local communities.

Senator **Allen**. I see.

Now, does EPA have loans as well as grants, or only grants?

Mr. **Carroll**. Only grants.

Senator **Allen**. When they go the route of the Farmers Home Administration, then, you say that you have an understanding that they won't go any higher, they apply this same yardstick, is that correct?

Mr. **Carroll**. That is correct.

Senator **Allen**. Do these States also participate in the FHA loans and grants, or is that only the EPA?

Mr. **Carroll**. I am not familiar with the State programs.

Mr. **DeCamp**. I don't know how the State participates with the Farmers Home.

Senator **Allen**. If we have some 35,000 to 40,000 cities and towns needing sewage systems, by processing down, do you mean you realize the grant money, is that what you mean?

Mr. **Carroll**, Obligate the money, yes, sir.

Senator **Allen**. How much has actually been contributed?

Mr. **Carroll**. Our distribution requires that the part of the construction, I can give you a broad figure, that from 1956 to July 1 of this year, we have obligated Federal funds of $2.9 billion. That supports about $11 billion in actual construction. Of that, I believe roughly $3.2 billion represents completed projects, and roughly, $4.4 billion represents construction under process. And the remainder of roughly $3.1 billion represents projects that have not yet been started. These are either awaiting approval of the plan, engineering requirements, obtaining land, and in many cases they are going to the bond issue process to raise the local share of the funds.

Senator **Allen**. And that is how much in money, total?

Mr. **Carroll**. $11 billion since 1956.

Senator **Allen**. $11 billion.

Now, how many cities and towns did that cover? And this is since 1956?

Mr. **Carroll**. That is right.

That covers over 12,000 projects. In terms of cities and towns, I think it will be something just slightly under that. You seldom have more than one project in the town. And in a few cases, we have consolidated projects for a number of cities. For example, we are now working with the city of Cleveland to include one major project, not only to the city, but 30 surrounding suburban communities.

Senator **Allen**. That is 12,000 that are in one stage or another, starting at the lowest level of obligation of the fund, is that right?

Mr. **Carroll**. The first step, right.

Senator **Allen**. How many have actually been disbursed in that time?

Mr. **Carroll**. I don't have the outlay figure with me. I would have to gixe you that.

Senator **Allen**. Would you estimate it?

Mr. **Carroll**. I guess at year end, we had a figure in the neighborhood of over a billion and a half.

Senator **Allen**. How many?

Mr. **Carroll**. Over a billion and a half.

Mr. **DeCamp**. The question is what you mean by disbursed, because sometimes it takes 3 years to build one of these plants, so we pay for these projects in 25 percent increments as the construction progresses. The payments are spread out while the plant is being built. The funds, of course, are obligated for those payments, and go on our obligation side. But whether we have actually disbursed in Washington, you know, for the plant which is three-fourths built, I would have to go back and get the actual figures on that. We have obligated all the funds, of course, for each—as soon as the grant offer was accepted, the funds are obligated.

Mr. **Carroll**. I can estimate that in a different way for you, Senator.

Senator **Allen**. All right.

Mr. **Carroll**. If we had $3.2 billion of completed construction projects, that are in operation at this time.

Senator **Allen**. $3.2 billion?

Mr. **Carroll**. Yes.

Senator **Allen**. That would be about 5,000 projects, then, wouldn't it?

Mr. **Carroll**. If you assume an average sized plant, yes. I believe, about 5,000 projects have been put in place.

Senator **Allen**. But some 5,000 have been completed in this 5-year period?

Mr. **Carroll**. That would be a rough computation. I will submit the exact figures for the record.

(The information is a follows:)

The summary statistics of the waste treatment program indicate that 8,237 projects have been completed since the beginning of the Public Law 84–660 grant program. In the past 6 years, 3,726 projects have been completed.

Mr. **DeCamp**. Very rough. Possibly more, because the small communi[illegible] of which there are a very small number, would take very m[illegible]e to build.

Senator **Allen**. Say 6,000, then?

Mr. **DeCamp**. That would be a rough guess.

Senator **Allen**. Well, 6,000, then, in 6 years; that is turning them out at the rate of about a thousand a year, is that right?

Mr. **Carroll**. On the average, since the start of the program, that has been a gradually escalating curve, since the program has grown through this period.

Senator **Allen**. If we estimate the number of cities and towns that don't even have a system, that would indicate that it is going to take 30 or 35 years to get around to all of them, isn't it? Under the present rate of turnout?

Mr. **DeCamp**. Only if you say that each town requires a system.

Senator **Allen**. Well, most towns like to have a sewer system; don't they?

How many applications have you had in thie 6-year period, approved and not approved?

Mr. **Carroll**. I think, if you will, Senator, we are getting ourselves in a box here. I will have to take a little issue with Mr. DeCamp. My understanding of this survey which we did, was that there was $12 billion required for the next 3 years, comprising over 8,600 projects, which covered roughly two-thirds of the population of the United States for sewers. So I would extrapolate from that base, and we end up with only perhaps 10,000 total communities requiring such services. Now, if there is an unsewered community, then we cannot, in our case, go in with a waste treatment plant. Obviously, there is no way to get the material to it to process it. And that is why we restricted ourselves to the 8,600 unit program. That relates to a 3-year program at about 3,000 a year, which is compared with the 2,000 we will be processing a year in 1971, if this curve is raised.

I think our largest problem, just as a matter of information in passing, is the capacity of the construction industry itself to absorb this rate of growth in additional facilities. We have seen some inflationary impact in the past 3 years simply because the industry itself has not been flexible in its size and ability to change; there have not been major new entrants into that business. And as our demands have grown up, total demands, that aggravates somewhat the factor of the delay of getting these plants into place.

Senator **Allen**. Well, it is a big job to take care of all these systems, isn't it, and furnish the funds?

Mr. **Carroll**. A very big job.

Senator **Allen**. And if some financing should be made available through another source, it seems to me that it might be to the best interest of carrying on this important work that EPA wants to see done. I am wondering why, other than the fact that it would be by another agency, there would be any objection to giving this bank the authority to make this type of loan.

Mr. **Carroll**. I guess, as a matter of principle, we don't really care that much where the absolute dollars come from as much as the community ability to do it. Our interest is to see that the job gets done and the waters cleaned up; that is our ultimate goal. So my comments are really going to the question of how it is done. Where, on the one hand, we feel that there are sufficient moneys in our program to cover the communities you are talking about, we also have proposed, or the administration has proposed, to the Congress an Environmental Financing Authority which would guarantee bond issues of these local municipalities. And I think that would have some particular bearing on rural communities. If they were so small they may not be able to pay the commissions and override fees to a municipal bond house, to go out and distribute their bonds widely, they may not have an established credit rating that makes their bonds salable at a low interest rate. This financing agency would allow them to do that, and tap that municipal bond market for their share.

We feel that that piece of legislation would help them carry their portion of the burden. And we believe in a shared-cost system here between the city and the Federal Government. And with the combination of such Federal funds with a mechanism to insure local fund-raising ability, we just simply feel that the problem is well covered.

And in terms of our proposed water quality legislation, the suggestion has been made on a number of occasions that more money be provided for obligational authority in the year 1, 2, or 3, and even extend it to 5 years. The availability of money now is not the delimiting factor; the delimiting factor is the ability of the construction industry to put these plants in place. And we just don't believe that funds are now a problem, at least would not be under those two pieces of proposed legislation.

Senator **Allen**. You feel, then, that you ought to turn the money loose as rapidly as the construction industry can put the system into place?

Mr. **Carroll**. That is right. In fact, we are working out ways to accelerate that process. And I think it is in a way that will help small communities.

One of the historic problems has been that there are large engineering costs associated with the design and construction of these plants. So we have proposed, 2 weeks ago, I believe, in the Federal Register regulations allowing turnkey construction of these plants.

Assuming that we go through the comment period of 60 days and issue final regulations, which I hope and believe we will, this will enable a small rural community to go to a major manufacturer and say, this is what I want solved by next year, and it is your problem. And they, in the meantime, do not have to go through that large engineering expense without knowing what the results are going to be, and whether their bids are going to be too high or too low, and then we have to start the process over again. We feel that that will particularly help the small communities.

Senator **Allen**. By the way, how many applications are now pending there at the Department?

Mr. **Carroll**. There are approximately 400 applications pending in our offices.

Senator **Allen**. These applications, are they for the whole system starting from scratch, or in some cases it might be an existing system wanting to extend their lands into several new subdivisions—is it a brandnew system, is that what you speak of when you speak of a grant or application?

Mr. **Carroll**. It is both. We engage in updating and the replacement of obsolete facilities.

Senator **Allen**. So many of these, then, are not the cities and towns that have no systems, it is updating cities and towns that have some systems or want to enlarge or modernize their present systems?

Mr. **Carroll**. There is some element of that. But we have shown that the current new construction need assessment of the present backlog is somewhere in the neighborhood of 80 or 85 percent, representing either an expansion of the city's population, or entirely new facilities, and only 15 to 20 percent of the backlog represents at this time replacement of outmoded facilities.

And that curve will start to change in about 1976 to 1977. And we believe under the proposed legislation that this backlog will be worked off in the municipal sector totally by 1981.

Senator **Allen**. Recapitulating, then, as I understand it, the only phase of the operation of the bank as far as this legislation is concerned would infringe upon the activity of the EPA with those phases of the bank's authority dealing with the making of the grants and loans for sewage systems and waste?

Mr. **Carroll**. Yes, if you are including waste, not only water waste, but solid waste, for example.

Senator **Allen**. So EPA is not in the business of financing anything, is it, as far as making loans are concerned?

Mr. **Carroll**. As far as loans, no.

Senator **Allen**. So you all are not in the banking business in any respect, any aspect of this field?

Mr. **Carroll**. We are not.

Senator **Allen**. So then you express no opinion on the other phases of the proposed legislation, its wisdom or its practicability or its soundness?

Mr. **Carroll**. That is correct.

Senator **Allen**. What kind of standard for air, water, and other environmental quality do you require of the rural areas under systems?

Mr. **Carroll**. We require the same standards in the rural areas, in the case of water, that we require of urban areas. Those are the standards I mentioned in my testimony as being set in combination by the States and ourselves. And we establish the technical criteria, and the State makes the determination as to what uses they want for that water. And our authority in that case goes only to interstate waters, with the exception of the currently activated or reactivated Refuse Act of 1899, which includes all navigable waters. And we have requested legislation which is before the Congress that the Federal authority be expanded to include intrastate waters.

There are a number of States now which have adopted common standards for intrastate as well as interstate waters, where they have adopted interstate programs in conjunction with us. But I think that you would find that the smaller communities would be more likely to have intrastate waters, and there may be some extension of our authority in setting control standards in those cases.

In the case of air, we have only taken the first step in the standard-setting process, whereby we have promulgated our documents and proposed guidelines for the State to meet regarding ambient quality levels, and under which they are supposed to submit to us by January 30 of next year implementation plans to meet those levels.

Now, the States have the option to take a variety of methods and plans to reach those levels. And we cannot yet predict what pattern will be picked by any given State. There are a variety of proposals and we would hope that most of them would affect all urban areas alike. Obviously, most of the polluting problems are in the urban areas. And if a State should take—the simplest alternative, for example, is commonly referred to as a "rollback," they set a certain level for the major urban area in that State, and then say, the whole State has to meet that level.

That would probably be easiest for the rural communities to meet, because they have less problems. But, as I say, we don't really know what alternative they are to take.

Senator **Allen**. What kind of treatment plant and industrial devices to prevent pollution do you require in rural areas?

Mr. **Carroll**. Well, again, we require none specifically for rural areas. The place that that might impact particularly is, if you have a one-industry town, and you have effluent emissions from that plant which are reducing an adjacent body of water below the levels set for that use by the State, then that plant would require control requirements. And that would be related to the type of effluent that they are putting into the water. And, in turn, that would dictate the cost that might have to be borne by that particular company, but not by the residents per se of that community, or the municipality, and so on.

Senator **Allen**. Some of these small plants are—a cheese factory, for example, doesn't that create special problems on waste disposal? You have special requirements for some things, special conditions.

Mr. **Carroll**. I am not familiar with that particular process.

Mr. **De Camp**. I am somewhat familiar with it. It is a problem, biochemical oxygen demand. It is an organic waste.

Senator **Allen**. Yes, the whey of the milk.

Mr. **De Camp**. It receives the same type of treatment that any other organic sewage will receive in a sewage treatment plant. Again, we don't put the special requirements on that plant at the time, but only the receiving water can receive so much waste, or you go beyond the water quality standard.

Mr. **Carroll**. This biological oxygen demand measurement of the quality—of the capacity of that water to absorb effluents, of course, varies from river to river. And I think perhaps one can speculate broadly that in the smaller communities which have less effluent and a fewer number of outflows into that river, it may not in the broad sense have strictly a standard that needs to be set on that factory.

There is simply not as many of them going into common receiving waters. And that is a function also of the ability of that river as related to its flow and its depths to absorb these effluents.

If you happen to be up in the high mountains with a fast-running stream, it is a lot easier than if you are in the valley for that stream to absorb these effluents and, especially that one factory—unless the effluent is especially toxic. Toxic materials are a different sort of question entirely. These have to be banned, regardless of the ability of the river or stream to assimilate them.

Senator **Allen**. You think, then, that that the time this $12 billion is spent for waste disposal systems that the problem in that area will be solved in this country?

Mr. CARROLL. That $12 billion is only directed at the municipal waste treatment. We feel it will be solved. We still have some industrial problems, we still have the pesticides, acid mine waste, and so on, and we really haven't been able to figure how to solve them.

Senator ALLEN. They probably would not come under the provisions of this regulation, whereas a municipality would. As far as the public entities are concerned, you think the $12 billion will pretty well solve that problem, then?

Mr. CARROLL. Yes, sir. I hope that we would be put out of business by the expenditure of that money.

Senator ALLEN. Then they will be talking about replacement and updating. We would be happy with that for the first step.

We appreciate very much your testimony. I think you have made some very valuable suggestions, and have given us some very useful information. We appreciate very much your coming before the committee and giving us the benefit of your views and those of the Environmental Protection Agency. Thank you very much, gentlemen.

Mr. CARROLL. Thank you.

(Additional information requested from the Environmental Protection Agency is as follows:)

Question. What are the total funds needed to satisfy current national needs in the areas of solid waste management, air pollution, and industrial-agricultural-forestry wastes (to correspond to $12 billion quoted for water treatments needs)?

Answer. There are no similar estimates to correspond to the $12 billion quoted for water treatment needs for the areas mentioned since the $12 billion relates specifically only towards meeting the needs of municipalities over a three-year period. However, in the second annual report of the Council on Environmental Quality dated August 1971, on page 111, Table 2, Pollution Abatement Cost Summary, it indicates that the cumulative requirements for the period 1970–1975 for major air, water and solid waste expenditures are as follows: For air pollution $23.7 billion; for water pollution, excluding collection sewer costs and costs to solve combined sewer problems, the estimate is $38.0 billion and for solid waste, $43.5. Industrial costs are included in the total estimates for air and water. Corresponding estimates for agricultural and forestry wastes are not readily available.

Question. Provide a specific dollar figure for needed municipal sewage systems for towns under 35,000.

Answer. Since towns of 35,000 and under comprise about 35% of the estimated projected need of $12 billion, the specific dollar figure would be $4.2 billion.

Question. Furnish information as to what EPA does—and doesn't do—to provide assistance at county and local levels for solid waste disposal systems.

Answer. EPA does the following at the local level to help communities upgrade solid waste systems:

1. *State, interstate, and local planning grants.*—An essential element of an effective solid waste program is planning. EPA was provided funds to aid State, interstate, and local agencies to develop meaningful comprehensive plans and to achieve solutions to solid waste management problems.

2. *Technical assistance.*—In order that local officials may develop or expand their existing solid waste management systems, EPA serves as a source of technical assistance.

3. *Financial assistance other than planning grants.*—EPA provides financial assistance to State and local governments through demonstration and training grants.

4. *Guidelines.*—EPA is currently developing guidelines in all aspects of solid waste management. Guidelines pertaining to incineration and sanitary landfilling have been or are in the process of being developed. We make recommendations to Congress, and to State and local governments relative to improvements in managing solid wastes; however, State and local governments have the power of enforcement in the solid waste area.

5. *Training courses.*—EPA provides training courses for public works officials.

EPA does not provide funds to local communities for the construction of facilities.

Question. Provide EPA recommendations as to the requirements of a good "typical" local solid waste disposal system with different geographic examples such as contained in our submission to the Subcommittee regarding the standard waste water treatment required for a city of 5,000.

Answer. A variety of factors are considered in determining what type of disposal system is best for a particular community. These include:

1. *The type of waste generated.*—Certain types of waste, such as plastics and tires cause extensive air pollution problems when burned. Thus, if a demand exists for tire disposal, the pitfalls of incineration should be considered.

2. *Demographic considerations.*—The incinerator may be more appropriate in densely populated urban areas with scarcity of land whereas in rural areas, with a good abundance of land, the sanitary landfill may be the more viable disposal alternative.

3. *Opinion considerations.*—Public opinion towards sanitary landfilling is generally negative because people generally think of open dumps, but a sanitary landfill, properly operated, is a very effective means of disposal and causes no environmental insults.

4. *Economic considerations.*—Depending on the volume of waste generated, one disposal alternative may be more economical than another.

Since each factor must be weighed in considering the relative efficacy of a disposal system, there is no single "typical" optimum disposal system.

Question. EPA estimate of the cost of waste water treatment for a 1,000 steer feed lot on the bank of a stream and whether or not EPA finances such a project.

Answer. An estimated investment of $10,000 for construction and capital costs would be needed to establish appropriate controls. This is exclusive of land costs but would provide a lined catchment basin capable of retaining a 2½ inch rainfall in a 24-hour period and incorporate methods for subsequent land disposal. The EPA does not finance a project which is 100% industrial waste.

Senator **Allen**. Mr. and Mrs. Denman, please?

We are happy to have both of you come before the committee. We will note that you are from Ellensburg, Wash. You have come a long way to testify. We appreciate that, and look forward to your testimony.

How do you propose to testify? Do both of you plan to testify?

STATEMENTS OF CLAYTON C. DENMAN, PRESIDENT, AND ANNE SMITH DENMAN, CO-DIRECTOR, SMALL TOWNS INSTITUTE, ELLENSBURG, WASH.

Mr. **Denman**. We have written a joint effort here, and I would like to read part of it to the committee.

Senator **Allen**. We would be delighted to hear from you.

Mr. **Denman**. I can read portions of it and submit the rest of it for the record, depending upon the time we have.

Senator **Allen**. You suit yourselves; we will be here as long as you require. So handle it in any manner you wish.

Mr. **Denman**. Mr. Chairman, my name is Clayton C. Denman and I am president of the Small Towns Institute in Ellensburg, Wash. My wife, Anne Smith Denman, and I, are pleased to testify today on S. 2223. As codirectors of the Small Towns Institute and teachers of anthropology at Central Washington State College we have daily concern with the problems of rural America both from an academic perspective and through the experience of living in a small town.

Mr. Chairman, we wish to commend the Subcommittee on Rural Development and the sponsors of S. 2223 for their interest in countryside America and their dedication to its revitalization for the benefit of future generations.

In developing a program to aid in the revitalization of rural America we must have in mind specific social conditions which are primary for the survival of any small society; for small town America and rural communities are subject to principles also basic to other small societies. Many of these principles are already well known to social scientists We must proceed first by asking what is desirable about the rural community and then designing economic programs which can bring these social conditions into reality. We all know that pouring money into small communities, without knowing the effects of such funding, may be more destructive than progressive.

We would therefore like to examine briefly some of the social conditions which make small towns and rural areas places Americans want to preserve. America has always presented its citizens with alternatives; but as the committee recognizes, economic conditions have often restricted opportunities in the countryside. Three distinguishing features of small communities are: the sense of community, the continuity between generations, and the unique place of countryside America in relation to urban America. Our economic policy should seek directly to promote these social patterns.

The "sense of community" in countryside areas and small towns is crucial. This phrase implies a mutual understanding and blending of purpose that links the members of a town or village (or even an urban district) into a functioning whole. It is only within a community structure, where agriculture, small business, education, religious institutions, and everyday living blend into a functioning ecology, that the vices so typical of today's overcrowded metropolitan areas are minimal and unrewarded. Many small towns today still retain the ability to function as genuine communities: businessmen take part of their profits in satisfaction for performing social services, young people and the elderly are not segregated into different worlds, and education into the ways of social and economic systems extends far beyond the classroom. We must seek economic policies which favor the maintenance of a "sense of community" in countryside America.

PROMOTING CONTINUITY IN SMALL TOWNS

A second important feature of the small community is the blending of the enthusiasm of youth, the strength of maturity, and the experience of old age to insure continuity between the activities, needs, and understanding of the generations. Much of the alienation of youth is a result of segregation of adult economic activities and the education of young people. But in small communities and especially on family farms, young people are not subjected to this compartmentalization as they are in cities. The rates of juvenile delinquency, crime, and mental illness in city and countryside have reflected this difference. Programs must encourage youth to be involved in the economic affairs of rural America.

In many towns people from 20 to 30 are notably absent. It is easy to attribute this to a lack of jobs or to housing conditions, but we have noted in towns we have studied that good jobs and business opportunities go begging and substantial houses stand vacant. Mass advertising and urban propaganda—continuously disseminated during the past 30 years in the communication media and through the schools—

have been telling young people of opportunities in the cities and the good life to be found there.

Education in rural America should allow youth a true choice of remaining in a community or going to another area. Small towns have often exported their most creative youth, but they cannot survive if they encourage the least capable to stay and educate the most intelligent to leave. Modern education must train local youth to take over the economic and social enterprise of the community, and Federal programs should encourage this by favoring loans and grants to existing local institutions and businesses which would train youth for continuity.

Our programs should also provide new ways of using the skills of the experienced in community improvement. We should maintain the ability of institutions to continue over time, to change, to grow, or to remain unchanged as fits the needs of the community. A small town with 300 elderly people who live in their own homes should be able to retain a grocery store that can deliver food to the many who have no transportation; post offices should not be closed in remote places; nor inns and other service facilities be forced to give way to highway, rather than community-oriented needs.

The elderly who have chosen retirement in a small town should be able to depend upon local resources which led to their decision to retire there. Economic aid can promote continuity.

One of the ways S. 2223 can contribute to the revitalization of small communities is by taking into account such social values as these. Too often traditional banking institutions have been unable or unwilling to recognize the social profits so important to the management and clientele of small community businesses.

THE SMALL TOWN IN ECOLOGICAL PERSPECTIVE

Finally, we must view small towns and rural areas as part of the social ecology of a region and a nation. Scholars like Baker Brownell and Wallace Stegner have pointed out that in addition to their human qualities, rural communities may be essential to the vitality of large cities because of their role in exporting creative and innovative persons. But there have been other aspects of urban-rural relationships as well.

Almost every agricultural nation has had both cities and rural places—sometimes symbiotic, sometimes in conflict with one another. Yet throughout history it has been the cities which have risen and fallen, which have suffered most from overpopulation, disease, and from their indulgence in the least permanent things of life. We have experienced this phenomenon here in America in recent years, but on a different scale than in the Europe of ancient times or in the highly populated countries of Asia.

In America the larger cities long ago outgrew a scale of organization in which men responded quickly enough to correct navigational errors through the flow of time. By now we should know that our urban systems scarcely react to the courses set by hopeful planners; we had ample warning of the future with the massive growth of suburbs after World War II. The same process goes on today; yet we too often fail to see that the problem is bound with more basic demographic links between cities and rural life.

Where cities have prospered, they have always drawn upon the resources of a viable countryside for their existence. Most existed first as trading centers for rural products, then as places for the absorption of excess rural population. As American cities of the 19th century grew, they increased their consumption of rural products, but discarded their role as trade centers among rural dwellers. Increasing urban populations produced new innovations that for a while enhanced the patterns of rural life as new technologies fed back to the countryside.

But nearly a century ago one could have predicted the rural dilemmas of today because this symbiotic relationship, between country and city increasingly became a web of technological rather than human dominance. The ideologies that we have since spun have broken the delicate strands that bound city and country into a single ecology.

By the late decades of the 19th century, technology increasingly became the basis of farming: the more wealthy increased production by machinery, and the poor tried to compete by bearing large families for labor resources. A continuing exodus to the cities was the result. The purpose of life in the countryside was no longer the human pleasure of living, but the frustrating task of making money as an intermediate step in the process of seeking pleasure.

The cure for our countryside debility must involve a revitalization of the human relationships and the human vitality that once fluorished there. Life must be preserved and re-created on a human scale where the affairs of town, village, and farm are closer to nature than they are to the technocracy of urban life.

In the past century we have created a "myth of ultimate design" toward which we believe all society is going. In the 19th century these designs were the basis of many small utopian societies and even of larger, worldwide movements such as communism and Victorian perfectionism. Today few Americans believe in this ultimate perfection, but we do believe that our most sacred accomplishments, our doctrine that technology and industry can subdue nature and subordinate human communities, must be spread to the farthest glades of wilderness and to the smallest villages. We call the doctrine "progress"; we believe it is good but we know neither what it is nor where it ends.

The "myth of ultimate design," the creation of unified society in the image of the city, has been exported through advertising and education to the remotest corners of rural America. The "mass society," as Arthur Vidich and Joseph Bensman have called it, would spread the tentacles of urban failure around the whole body of America.

A century ago the cities of America functioned well on the utopian model, planning for ultimate sizes and sometimes installing utilities for populations not yet reached. Today we encourage such rapid change that we dare not predict a future which our technology is sure to cancel. Rural America can no longer mortgage its natural serenity and beauty and sense of human community to the whim of urban needs.

The countryside must be revitalized, but this can only be accomplished if we strengthen the functional and fundamental relationships between city and country, and abandon the myth that cities and only cities offer the model of the good life. The rural village is not an embryonic city; and if we lead its residents to believe so, if we provide it funds to build in that direction, we will have created a bad copy of the city, a miniature rural center of urbanic poverty. We will not have succeeded in creating something of future value, but we will have destroyed a rural village.

As Jane Jacobs has pointed out in "The Economy of Cities," towns do not grow into cities unless they are able to create and develop new kinds of work, new innovations that are fed outward from the communities which created them. But this is not possible in America today because the unlimited funds of urban conglomerates are ready to ingest these small resources long before they benefit the communities which spawn them.

We cannot begin to revitalize the countryside until we create in rural America place for the small farmer and the small independent businessman to develop free of the intrusions of tax-loss expansion by corporations so dim in foresight that they can only progress by buying up the creativity and livelihoods of others.

New economic programs must encourage the small businessman to remain independent so that his services fulfill community needs, and so that he can continue to take profits in pride and integrity as well as in money. Rural America will suffer irreparable damage if the way is opened for more corporation intrusion where business is conducted purely for the benefit of distant investors; where employees mock the sense of community with programed greetings; and where local business owners who are themselves investors in the future are put into competition with the vast resources of urban conglomerates.

It is the locally owned and managed business which benefits the rural community; the branch of the urban supermarket or the dictates of an outside franchiser leave little with which to build a strong future economy in the countryside.

Here we would like to use stories of two small towns to demonstrate specifically why we see urban intrusion as a cause of concern for countryside America.

Our first experience with this phenomenon occurred in 1967 just before we began a study in the small town of Cle Elum in Washington State. This town had lost its payroll from the closure of coals mines in 1960 and suffered a second time from the continuing decline in railroad activities in the last decade. Stabilized at 1,800 population, the last remaining basic industry was a locally owned lumber mill which employed some 45 people and was in constant operation day and night. In late 1966 the company was awarded a Federal contract for lumber amounting to several hundred thousand dollars. Within a month this prosperous industry was purchasd by a Seattle-based mill whose urban managers, oblivious to small town needs, found it profitable to close the mill, fill the lumber contract in their urban plant, and to sell this small town mill at a scrap auction the next summer. Their profits came from the tax advantages of destroying the livelihood of some 40 families in countryside America. Cle Elum's unemployment rate today is over 18 percent and the old people there are even more convinced that they are but the slaves of national principles and practices which control prosperity or destruction.

The most pertinent question that legislators must answer in proposing bills to bring new vitality and prosperity to rural places is whether their efforts and the expenditure of national resources will create only temporary or elusive improvement of conditions, before towns and farms again fall victim to the design of an infinite progress that feeds the giants until they burst of their own undigested burdens or are provided dyspeptic cures by government.

The Cle Elum mill is not an isolated incident of modern economic waste. The influence and collusion of economic giants, first in industry and now in agriculture, has a long history of destroying the efforts of rural towns to build a future on the integration of both economic and human values.

Mr. Chairman, I would like to pause very briefly in my prepared testimony to review in my own words the next two pages.

On our trip out here, we came by motorcar in order to visit many towns of rural America and stop to observe first-hand what is happening in many different regions. One of the places we stopped was a small town in southern Illinois on the Illinois River. Its name is Kampsville, and it is a town of about 450 residents. It is a town that most people passing through—most visitors—would think of as a declining town. I counted few small businesses—two gas stations, a restaurant, a small bank, a bar and two general stores; that is about all that remains.

We stayed there 3 days, and talked to quite a number of people in the town, including the grandson of the founder, whose name is Arthur F. Kamp. And in talking with this gentleman and with other people in the town, it occurred to many of us in the discussions that the town's decline from some 700 or 800 people about three decades ago, was not because these small towns were out-of-date, or that the businesses or industries that had been built there were out-of-date, but because the town had become a victim of other industries—the pollution and the needs of the other industries—in the large urban areas.

Now, you might immediately contrast the fact that there are only 400 residents in Kampsville, with the fact that there are many millions of people living in the Chicago area. But I wonder, if we count the populations of all the towns along the Mississippi River and the Illinois River if surely there aren't millions of small town and rural people affected by these same conditions.

In Kampsville there was a button factory that went out of business in 1915 which employed about 40 people in the mill itself, and many more in the mussel fisheries along the river. There was also a small navigation dam at Kampsville that provided employment; there was a growing orchard industry; and there were several resorts, since the town is only 50 miles north of St. Louis. There were, of course, farms and many other industries established near this community. The deaths of these industries were all related to industrial transportation and pollution of the river. In 1900 the Chicago Sanitary Ship Canal was cut through, and by 1908, the ship channel throughout the entire Illinois River system began to silt because the current of the river was slowed considerably by the construction of navigational dams. As a result of this, the mussel beds were completely destroyed for a time, which made it impossible for the button factory to operate. The increase in the surface elevation of the water, and the fact that the riverbed was constantly silting in from the slowed current, eventually flooded the orchards, the resorts, and often the first four blocks of the town. Today, the main street of the town is far back from the shores of the river, and though there are many business buildings remaining, businessmen point out that they are almost uninhabitable, as they periodically have up to 8 feet of water in them.

So when we look over the economic history of this town, according to the residents—and I think their analysis is accurate—it is impossible to establish new industry there, because efforts to do so are constantly being destroyed by the needs of outside communities, the needs of urban communities.

My suggestion for legislation at this particular point—and I will probably repeat it somewhere—is that the economic needs of larger cities and the economic needs of large industry really ought to be tempered by a social conscience. Something in the legislation ought to be provided to compensate any small town that is going to suffer from the establishment of distant industries. At least Kampsville has suffered, and no one has even recognized the problem.

I will return to my prepared testimony.

Legislation must give a new independence to small-town enterprise, focus it on the needs of the community and on local industry which exports creative things not subsidiary to corporate exploitation. Ultimate economic viability in the small community must be coupled with a policy of social responsibility

We are now dealing with an ecological situation in which urban-based predators show signs of devouring small towns and countryside America. Like many wild things—the bald eagle, the Bengal tiger, and the whooping crane—small towns are being destroyed or radically altered without true understanding of their unique qualities. It is important to design national legislation so that our funds do not promote urban intrusion into functional small town lifeways. In general, we believe that S. 2223 needs safeguards so that its benefits accrue primarily and directly to local areas. It is on the basis of these ideas that we would like to make the following recommendations with respect to this legislation.

SPECIFIC PROPOSALS

The introductory portion of the bill (title I, sec. 105, 7B (1)-(18) and title II, sec. 202, 3 A-O) states a number of commendable goals which the monetary provisions are designed to bring about. But an assumption has been made that the mere provision of money for the development of economic enterprise will unquestionably bring about these ends. From an examination of the causes of present problems in rural towns, together with the devastating results of urban renewal on communities within cities and the destruction of small farms by programs and taxes that favor agrifactories, we should be aware of the need to calculate firm relationships between social goals and monetary policy. This must not be left to administrative action, where it is less publicly accountable, but should be specified in guidelines approved by the Congress.

In order to preserve the sense of community that is essential for the functioning of a small town and to insure local benefits, businesses which are locally owned and managed should be given specific preference in applying for and receiving loans. Loans should go first to local businesses and not to relocated urban giants who will infuse highly paid executives into rural life on the pretext of hiring a few rural poor.

There should be greater provision for aiding businesses and other institutions in declining towns on a short-term basis. For example, a town with many retired people living in their own homes needs the assurance that grocery stores nearby will continue to exist as long as the elderly live there. Such a population may be thus concentrated for 10 to 15 years. The bill should allow grants to such small stores to assure their survival until they are no longer needed.

There should be an active program of technical assistance especially geared to small business, and it should include information on utilization of limited and intercommunity marketing areas. Information should be available to small business based on sound geographical and economic principles such as that of the "Functional Economic Area" outlined by Karl Fox and the "Dispersed City" studies by John Fraser Hart. The technical assistance program should be functional for any locally owned business, not just those applying for loans.

Since we are interested in stemming outmigration of youth and in the creation of jobs in rural areas, we should subsidize small businesses through loans or grants, to offer job training to young people. After a specified number of years, such job training should then qualify the trainee to obtain a loan under this bill to purchase the business in which he trained. This program would also help to develop community continuity, and stimulate an evolution of local business institutions rather than the more disruptive pattern of death and closure or replacement. We would also propose that this manpower training program be supported through ties with local secondary schools and colleges.

There has been a popular myth that rural businesses close (and thus eliminate jobs) because no one is willing to live within the limited income they provide, or that rural living is no longer an acceptable way of life. If this myth was ever fact, it no longer is, for urban dwellers are rapidly discovering that the costs of living in rural America are much less burdensome than those in cities and suburbs. The Congress should encourage this movement through a job-bank program which would make rural job openings known to urban dwellers who are ready to take advantage of existing rural opportunities.

Most rural towns are free from the dilemmas of cities precisely because they are small communities. If we want to retain these values which are primary structures in the backbone of America, we must find ways to preserve the human values that come from contact with the natural world, and from a philosophy of life that focuses on man in harmony with the things about him. These must be the real goals upon which public policy is based.

I would be very happy to elaborate some of the things that I touched on, or to answer any questions.

Senator **Allen**. Thank you.

Mrs. Denman, do you care to add something to your husband's testimony?

Mrs. **Denman**. I believe most of my ideas are also incorporated in this.

Senator **ALLEN**. I dare say a large percentage of these ideas are yours, I just feel like you had a whole lot to do with the input into this very fine dissertation, on which I congratulate you.

Mr. **DENMAN**. Indeed, they are, sir.

Senator **ALLEN**. We appreciate very much your coming before the committee and giving us the benefit of your views.

What is the Small Towns Institute that you are connected with?

Mr. **DENMAN**. Senator, we did a study on that town of Cle Elum under a grant from the U.S. Department of Labor in 1967. And after we finished the study of the community, we felt that research shouldn't lie about on shelves. And we had in our academic connections also read a great number of research reports that were really not being used to their proper effectiveness. So we decided that what needed to be done is to make academic research available and useful to local people. It shouldn't be left in simply the terms of an anthropologist or the terms of a sociologist, or an economist; but it should be presented in such a way that it could be applied effectively in the local community. And so we decided that what was needed was some way of getting this information out to the small towns, out to the people who could use it. We thought the best way to do this would be by establishing a nonprofit educational institution, which is what the Small Towns Institute is. It was started by my wife and I, by a local Ellensburg businessman, the chairman of the board of one of the local banks, the chairman of the economics department of our college, and by one of the major stockholders of the Cle Elum State Bank. We decided that we would gather up all of the information that we could find on what was happening in Congress, what was happening in the economic world and what was happening among religious and other institutions, and put this in the form of a newsletter. We tried to evaluate what was going on, not to make decisions as to what should be, but to provide useful information for local leaders. For example, the fact that S. 2223 was coming up before Congress is useful information for people in a small town. They should really have a say about it. Most people have never heard of this bill along with the many others that are introduced. So once a month we publish a newsletter with this kind of news.

We also hope to do a bit of research, not to put it up on the shelves, but to bring together the successful programs that are being accomplished all over America, and make the results available as we would the results of laboratory research. The social scientist can't create experiments. He has to find where programs are carried out and whether they are successful, or not successful, and use this as a kind of laboratory. For example, there are some communities in America where urban renewal programs have been very successful, like Montevido, Minn., and other places where renewal programs have failed. If we can explain to people why the successes and why the failures, it would be very useful toward helping people make decisions regarding direction and change in their communities.

I mentioned John Fraser Hart's study of the dispersed city. This study was in Indiana, where local people frequently complained about the economic decline. As he did a study of the economic flow in the several communities, he found that the perception of this decline was a false one; in fact, what had happened was that the economic institutions had simply changed from what people normally expected in the small town. Viable businesses had dispersed themselves among several communities, so that in one community he found an autombile agency, and in the next one a large grocery store or a department store which served several towns. If you weeded out all the failing economic institutions, and took all these eight towns together, you would have a dispersed city that was really quite healthy. In the report he asks why chambers of commerce are competing against one another for an economic prosperity that already exists and can be improved if only recognized.

In STI, we felt that this is the kind of information that communities need to share with one another.

Senator **Allen**. It is quite obvious that you both have a love affair with the small towns of America, I think.

Mrs. **Denman**. We do.

Senator **Allen**. I think that is very fine. I assume that Ellensburg is a small town.

Mrs. **Denman**. It is. It is a small college town. It has about 13,500 people, including 7,000 students.

Senator **Allen**. That is very interesting. These 7,000 students could well take over the town under the recent constructions of some of our voting statutes and the recent amendment to the Constitution.

I have enjoyed so much your presentation of the values of town and country America and the role and the necessity of small towns in this country. It is quite obvious that you feel that Main Street America is the backbone and the life blood of America.

Mr. **Denman**. Very much so.

Senator **Allen**. Your comparison of small towns with urban areas is very favorable toward small towns. And this sense of community spirit in a small town is certainly one of its finest aspects. You feel an identity with the town and you feel you are part of it. You know everyone in town, whereas in the larger cities you might not even know your next-door neighbor. It is a joke, but the average New Yorker is not a native, and when they find someone that is born there, that is the oddity. And the same thing is true of the city of Washington, most people are from small towns in other sections of the country.

It is obviously your thought, and I agree, that the small towns have been feeders which have made the urban areas and kept them green and growing by their ability to draw from the cream of the small towns. I wholeheartedly agree with you that we need to preserve the identity of our small towns.

Mrs. **Denman**. I might mention, too, Senator, that we feel very strongly that the city life and suburban life and smalltown life and rural life are alternatives, and it is not that we think that everyone should move to small towns, but we think that Americans should be presented with a more viable choice than they have been. And I think this bill will go a long way toward increasing the alternatives open.

Senator **Allen**. I think so. And you express the hope, if not in these words, certainly in the spirit that if the legislation does finally emerge, that it be charged with a social conscience?

Mrs. **Denman**. That is correct.

Senator **Allen**. I do believe that is part of the purpose of the proposed legislation.

I feel, too, that it is to maintain the drying elements and attributes and qualities of rural America and of smalltown America, that is surely one of the primary purposes of the legislation.

Now, as to the suggestions that you have made, I assure you that they will receive the careful consideration of the subcommittee and of the full committee and of the staff. And a complete record will be made of all the testimony taken here today and all the hearings, and each Member of the subcommittee will be furnished with a copy.

We appreciate so much you coming. You have made a very valuable contribution to the mission of the committee.

Mr. **Denman**. We are very pleased to have been invited to testify.

Senator **Allen**. Mr. Jack Hopper, please?

STATEMENT OF JACK HOPPER, MANAGER, TECHNICAL-ECONOMIC GROUP, SPINDLETOP RESEARCH CENTER, LEXINGTON, KY.

Mr. **Hopper**. Mr. Chairman, I have a written statement which is more in the form of a paper. And if I may, I would like to submit it for the record and summarize orally.

Senator **Allen**. That would be fine. We would appreciate that.

Mr. **Hopper**. I am Jack Hopper, manager of the Techno-Economic Group, Spindletop Research Center, Lexington, Ky., and I would like to discuss some of the findings and information that I have uncovered in research in Kentucky, particularly on three studies, two of them published, one to be published in December. These two studies are available for the files if they are needed. The first study, by the way, is entitled, "Banking in Kentucky," the second study is entitled "Credit Trends in Kentucky." Both of these were done for the banking commissioner of Kentucky. The third study will be called "Financing and Economic Development in Kentucky," and is being done for the Kentucky Department of Commerce. It will be finished some time later in the year.

The statement that I want to make is related to the problems of financing rural development, as I have found them to be.

Senator **Allen**. Would you relate those problems to the pending legislation, then?

Mr. **Hopper**. Yes, sir.

As a matter of fact, I would like to outline my statement. First, I want to trace the flow of funds, capital funds, between rural and urban areas.

Second, I want to examine and review the performance of the rural financial system.

Third, I want to review some of the changes that I think are needed in this system.

And then, finally, I want to comment on how the Federal development credit system would improve the rural financial system.

If we begin by looking at the flow of rural funds and flow of urban funds, we will find that rural funds flow primarily into the cities—into the intermediaries in the city, and into investment in the city. Rural funds do flow locally; in other words, they do go into local banks and other local institutions. But it is my feeling that most of the funds in the rural areas go into the cities. Now, they go to the stockmarket—

the national stockmarket—the bond market, insurance companies, pension funds, and trust funds. If you will notice, most of these are usually located in cities, few are located in rural areas. Therefore you naturally have an outflow of rural funds.

If you look at the reverse flow, you will find that there is some flow of urban funds back into the rural areas, but not so much. There might be some flow back to large corporations. There are some small amounts that flow backward from Federal lending institutions, but is my feeling and understanding from my research and the work done in other research, that we are dealing here with a one-way flow of funds—it is an outflow of rural funds to urban areas. This suggests that rural areas aren't maintaining and using their own funds like they might be able to if things were different.

Now, if you look at the flow of urban funds again, private funds, primarily, and if you look at their use in the rural areas, you will find that there are some particular problems with some of the institutional forms of using funds. For instance, no stockbroker will ordinarily handle a stock issue less than $500,000. No municipal bond house will float an issue less than $500,000. No insurance company trust fund, or any other large institutional lender, will ordinarily loan money in lumps less than $500,000. These three areas are pretty important lending and equity areas. I don't want to underemphasize the problem of equity funds. But what this means is that the small- and medium-sized businesses, people who need less than $500,000, are restricted in their sources of funding. You can see the problem of why urban funds don't flow back into rural areas, because you don't have too many——

Senator **ALLEN**. You are talking about rural funds. An individual having funds there, he has no choice but to put it in his local bank or to carry it into the city to put it in the bank. So it would be hard for him, would it not, to do anything more than maybe make a loan on his farm or something of that sort? There is no concentration of that money. It would be a small bank that couldn't service any of the needs of the rural areas, except maybe a crop loan or two. So there is a hardship there. And it is difficult for rural money to be utilized for rural development, is it not?

Mr. **HOPPER**. Yes, sir. I would say that we are talking about a gathering problem. It is hard for those funds to be gathered locally in any kind of volume. And I have touched on the problem of banks here because there is a serious outflow of funds from the local banks to the urban areas.

But I want to wind up this little section with the idea that rural areas are extremely dependent on small and medium businesses, and will be in the future, for job creation.

Now, the larger firms and the ones that are able to come in from outside have access to internally generated funds and the national money market, the investment market. But it is the small and medium firm that can't tap that market, and those whose needs are less than $500,000 may not have access to internally generated funds. So we are dealing with a financial system in the rural areas that is a little bit different from the national or the overall financial system.

Now, this rural financial system has fewer kinds of institutions, and probably a fewer number of institutions. I mentioned that you don't find any country insurance companies, or country mutual funds, or country pension funds. Those are all urban types of institutions. But you do find country banks and you do find country savings and loan associations. And also, of course, we have the State lending institutions that are public and do lend to the rural users. So we are dealing with SBA, EDA, REA, the Farmers Home, and also State guaranty and State lending type agencies. They are all involved in the rural financial system. But, of course, not all of these agencies lend to small businesses, nor are they able to help generate jobs. So if you emphasize the problem of job creation, then I think we have to restrict the list of Federal lending agencies to SBA, EDA, and REA, and maybe one or two others.

The result is that we are stuck with a system that is made up almost completely of smalltown banks. That is our rural financial system. These are the institutions that small and medium-sized businesses are going to depend on in the future to finance their growth, at least to a large extent.

Let's look at the characteristics of these rural banks. First, these banks are usually small. That means that they have limited banking services, limited banking facilities, and limited expertise, and they are usually a one-man operation. They probably can't provide the local businessman with expert advice on where to go to get more money. The problem, of course, is that they have small markets. Usually these small banks have low amounts of money in loans, and high amounts of money in Government bonds. In other words, they are exporting a good bit of the community's money just by this process of conservative operation.

A second characteristic is that they are very seldom aggressive competitors. Many of these banks are the only bank in the county, and many of them are the only bank in their community: they operate in monopolist markets. They have been operating this way for years and years.

Another characteristic is that these banks have conservative lending practices. There is nothing new in all of what I am saying here. They have very conservative lending practices. They have a tendency to use short-term lending, to operate with zero risk, to be very proud of the fact that their loan loss is zero. They lend to familiar people, to kinfolk, seldom to strangers, and they are not interested in loaning to many businesses. They may be unfamiliar with many businesses, especially one with new technology or one that is out of the ordinary.

Let me point out that this picture is not true of all rural banks, of course. There are numerous small banks and rural banks that do a great job for their communities. They do a tremendous lending job; they do everything that most of their customers want. So we are not really dealing with a total system here. But at the same time, my feeling is that the rural banking system looks like this; this is typical.

It is certainly true that a great number of banks are small. There are nearly 5,000 banks in this country out of 14,000, that have less than $5 million in deposits. The minimum economic size for a bank today is $10 million. So we are dealing with banks, a great number of them, most all of which are in the rural areas, that simply aren't economic in their operation. They can't be, they never have been, they are not ever likely to be economic in size.

Now, the very existence of SBA, EDA, and all these other agencies, more or less proves what I am talking about. They suggest that there have been gaps that have needed to be filled in the past, that have been filled to some extent. It suggests that if rural businesses are going to be supported financially the way they need to, then the rural financial system needs to be expanded and improved.

Here are some of the things that I think rural areas need for maximum growth in the future. I think there needs to be more funds put into the rural financial system. I think there needs to be more rural financial leaders. I think that rural America needs more financial leadership than it is getting now.

I think there has got to be better use of rural funds that are out there now. In other words, there has got to be less outflow of those rural funds and more local use of them.

But one way to expand the system—and we are talking about expanding the system on the one hand and improving it on the other hand—one way to extend the system is by creating rural credit banks. I feel it would be a great step toward improving the system. I want to list the effects I think it will have. I think it will increase the amount of funds that the financial system will have available to it. Of course, it will bring in outside funds, and they will be more available. I think it will provide a focus—and this is very important—I think it will provide a focus for rural development for everybody to see, and not just rural people, but urban people, too. I think everybody will understand that this is something we are now committed to, rural development. I think that this institution will stimulate rural financial leadership. And the rural areas are desperate for this leadership. Many people out there don't know where to go to get financial support, either credit or equity. I think that this new system would go a long way toward helping improve financial leadership. I think that the new system would provide coordination, cooperation and a lot of expertise for small business lending that isn't available right now out in the rural areas.

I would like to comment on two sections of S. 2223 that I think are especially important. Section 501 puts the multicounty planning and development agency right squarely into the development process. Now, these multicounty agencies—and I am familiar with them because we have 15 designated in Kentucky, and 12 of them operate—it has been my experience that these are planning agencies, not development agencies. I don't believe they are ever going to accomplish a whole lot until they get into development, until they begin to create new jobs. Right now they are drawing up plans and getting money from the Federal Government. Right now they are not involving anybody—there is hardly anyone in those districts who knows about these agencies outside of the city where they are located. And, of course, banks seldom know anything about their district agencies because Bankers are not involved with these councils. We have to get the financial leadership involved in these multicounty development agencies. Section 2223 I think will do it. I think it will put those people into the development business, that it will make them viable and grow and it will be the answer to a lot of political problems which we have.

I would like to comment on section 710, which provides technical and financial expertise in the rural areas. I believe this is badly needed right now. I would like to give you a new twist to this thing.

Small businesses are risky—they are risky because they are short on technical and management expertise, and by definition, a lot of lenders won't touch them. Now, if lenders knew that these small businesses were receiving better support, technical management support, if they knew they weren't so risky, they might be more inclined to put money into them. At the same time, if you can train the lenders to assess these risks a little better, you will allow them to assess what they think their risk is so that they will be more inclined to put money into these ventures.

So I think these two sections here are extremely important, and I think they need more consideration, maybe, than they have been getting.

Now, we said that the rural financial system needed both expansion and improvement. I want to talk about improvement that is separate from this bill (S. 2223). I think the bill needs to be considered in the light of this consideration here. To improve the performance of the existing rural financial system, we have to improve the performance of rural banks. We must reorient their thinking. We can do this in two ways. We must reorient bank regulators so that they give some authority to the value of that bank's participation in local community development. They don't do that now.

I think Congress might be able to do that because we have three Federal agencies involved, the FDIC, the Controller, and the FED, the Federal Reserve. All three of these agencies are examining banks and regulating banks on the basis of liquidity and deposit safety. We need to set the standards so that they require banks to get involved with the local community. That should be a consideration in the examination of these banks.

The next thing I think that must be done, is going to have to be done at the State level. We have to expand bank market areas. In other words, we have to expand branching. There is no other way out of this situation. We have to expand bank markets so that banks can become bigger, more competitive, so that banks can provide better service for their community.

We have made proposals in both these Kentucky studies that have stirred up some storm that banks in Kentucky be allowed to branch outside their counties, throughout their multicounty jurisdictional development districts.

We thought that this would serve two purposes. Kentuckians are extremely insular in their county attitude. Kentuckians are from a county first and from a city incidentally. And we want to have these people think about broader areas for development. So we thought that branching in these districts would allow the banks to participate in all the counties' activities, and they would be able to expand through out the district.

We would be able to integrate these districts, which are now nothing but planning districts. We would integrate them into economic entities. We felt that an expanded branching system might be the thing that would help do that. Because as it stands now, as the banks operate in Kentucky, they don't care anything about development outside of their county. There is no flow of funds between banks and between counties. There is poor mobility in the use of funds in the State right now, and we would like to integrate the counties into economic development districts.

We have also recommended the allowance of holding companies, which are not legal in Kentucky right now. We think that whenever you have rural banking, you have unit banking, because rural banks are usually too small to branch. So if you can allow some breadth in their market activities, larger banks can move in, the smaller banks can expand, and the whole system becomes more competitive and supports the development process much better. It is my feeling that this is absolutely essential if we are going to get the maximum from rural development.

The new system proposed, the rural development credit bank, will go a long way toward this. But let's not kid ourselves—we are trying to wire around a bad system, and we are trying to supplement something which is not working very well right now. We need to do both, we need to supplement, and we need to make it work better.

If I could summarize what I have said, I think that the sources and the volume of capital funds available to rural areas and their rural development are too low, and need to be increased.

I think that small and medium businesses are going to have to provide much of the development in rural areas.

I think that rural businesses are highly dependent on a rural financial system for their growth and expansion, and I think we are talking about dependence on rural and local banks. I think that the rural financial system does not serve rural businessmen as well as it should. I think it needs to be improved and expanded.

Last, I think the rural development credit system and those term banks that are proposed would be a major improvement in providing the kind of financial support that small businesses are going to need to make the rural areas grow and develop in the future.

Thank you Mr. Chairman.

(The prepared statement of Mr. Hopper follows:)

STATEMENT OF MR. HOPPER

This statement discusses problems of financing the rural development of America. It examines the sources of new jobs and the capital funds needed to support these jobs. On the basis of research in Kentucky, it characterizes the rural financial system and its shortcomings. The statement proposes several changes that are needed for the system to be effective, and supports the need for a new rural financial institution such as the Federal Rural Development Credit System, proposed in S. 2223.

PROBLEM AND CAUSE

Employment in rural areas has always depended almost completely on agriculture, either directly on the farm, or indirectly in servicing the farm community. The decline of agriculture as an employment base means that commerce and industry must provide nearly all the additional employment if rural areas expect to stop the loss of their population.

Small businesses located in rural areas encounter difficulty in obtaining the funds they need to create new jobs because of two factors:

(1) Small businesses everywhere have higher risks, and lenders avoid as much risk aspossible.

(2) Rural businesses depend primarily on an inadequate rural financial system for funds.

The attempt to increase capital funds to develop rural America must aim toward reducing the riskiness of small rural businesses, but the primary emphasis should be placed on expanding the ability of the rural financial system to provide capital funds.

The rural financial system does not provide enough capital funds to develop the rural economy because the system is almost completely made up of small unit banks, which in too many areas fail to connect their local communities to the capital fund system at the state and national levels; rural banks actually export rural funds to urban areas. In many areas rural bankers do not have the knowledge and experience to assess the risk of many businesses, they grant only those loans that appear riskless. Small business risks could be reduced and assessed if more technical and financial expertise were available to both lender and borrower in rural areas.

Numerous studies of tanking and finance have been made, including several in Kentucky, and details of this research will be discussed in the next section. There has been less research on the relationship of finance to economic development.

Many fortunate communities have been able to compete successfully in the scramble to attract large industrial plants. Unfortunately, most communities have not, nor can they depend on large industry to provide the new jobs that are needed. Most communities must expect to depend on small business, especially the home-grown variety.

Rural areas will depend to a large extent on the formation and expansion of small commercial and industrial enterprises for the creation of new jobs. To the businessman, the most important element in forming a new business or expanding and existing one is capital funds and any attempt to improve rural development must deal with the availability of business funds.

FINANCING DEVELOPMENT IN KENTUCKY

Kentucky has a number of large businesses which have access to the national capital market. Smaller firms have less access to state and national funds, and the small firms are quire restricted in their sources of both debt and equity. The restrictions are as much a matter of scale economy as risk. Exchange-member brokerage firms will seldom handle a stock issue much below $500,000, nor will they handle an industrial bond or municipal revenue bond issue much below this size. Insurance companies do not like to make investments in less than this amount, and trust and pension funds are required by law to invest in securities of firms with high credit ratings.

Small businesses in Louisville and Lexington have access to venture capital and to intrastate brokerage firms. They have access to very few banks or savings and loan associations which make long term business loans. Louisville businesses also have access to a minority enterprise small business investment corporation and the Louisville Industrial Foundation.[1] Small businesses have limited access to two federal sources—the Small Business Administration and the Economic Development Administration; to one state source—the Kentucky Industrial Development Authority; and to one special source—the Business Development Corporation of Kentucky. More than 100 local development corporations provide financial support for small industrial firms in the state. Despite these other sources, small business has been shown to be highly dependent on banks for credit.[2]

There is almost nothing known about the sources and amount of equity provided to small businesses. Much of it comes from personal savings of individuals, but several dozen stock brokers provide an unknown amount. Although these equity funds come from both rural and urban investors, most of the funds appear to go to urban firms.

Stock issues are regulated in Kentucky without regard or interest to their effect on economic development, and no studies have been made to assess their effects. Apparently, rural businesses have made little use of the intrastate equity market in Kentucky, possibly for several reasons: (1) the securities laws may be too restrictive, (2) rural businessmen do not have adequate information and advice about this method of getting money, or (3) small businessmen do not want to give up equity.

Since small rural businesses are so dependent on local banks for credit, the growth and development of the rural areas depend on a highly developed and efficient rural banking system. Unfortunately, rural banks in Kentucky as a whole have been shown to perform relatively poorly.[3] In 1968, Kentucky's rural banks loaned 59 percent of their deposits, compared to 67 percent for urban banks.[4]

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[1] Kentucky has no Small Business Investment Corporation other than this MESBIC.

[2] See Jack Hopper, David Whitehead and Darrell Gilliam, "Credit Trends in Kentucky," Spindletop Research, Inc., 1971, p. 13.

[3] See Jack Hopper and L. Randolph McGee, "Banking in Kentucky," Spindletop Research, Inc., 1970, p. 46.

[4] The loan to deposit figure for all banks in the United States was 75 per cent.

Only 59 of Kentucky's 120 counties have savings and loan associations. Savings and loan associations could provide some long-term mortgage money to businesses, but they apparently do not. One reason may be that in the 55 towns with S & Ls, banks have inter-locking officers and directors in 32. Forty-seven of the state's 135 S & Ls are interlocked with 47 banks.

These figures fail to show, of course, that many rural banks give outstanding financial support to their local community. Those banks are usually short of loanable funds, other banks in the same or adjoining counties maintain low loan levels, and put the remainder of the funds in treasury bills. In 1968, 34 of Kentucky's 345 banks had more funds in treasury bills than in loans.

There are two reasons for the poor support that rural banks give rural development in Kentucky:

the structure of banking

the lack of awareness, understanding, and coordination for financing development.

Kentucky operates two banking systems: 133 larger, more progressive branch banks and 212 unit banks.[5] Most of these unit banks are too small to provide full service banking to their community. Many have no interest in getting correspondent participation in loans above their loan limits; even less buy state industrial revenue bonds; almost none make long-term loans to business. Kentucky rural banks have enjoyed what can be called a state-maintained monopoly position for years.[6] Many rural banks continue to be run by elderly men past retirement age who remind themselves daily of the bad days of the 1930's.[7] The lack of competition and the restricted markets have resulted in an excessive number of small, uncompetitive banks which cannot or will not provide more financial service for businesses. The banking structure perpetuates these conditions, and insures that rural development does not get adequate financial support.

Although a different banking structure would give better support to development, other changes will also be needed. Financial and business leaders in rural areas must become more aware of the need for more planning, cooperation, and commitment to development. Not enough financial institutions are involved in and provide financial leadership for community development. Rural businesses available sources and methods of debt and equity funds.

One chronic problem seems to be that of getting the financiers interested in development planning, and getting the planners and developers interested in the financial aspects of development. Only one or two of Kentucky's 12 functioning area development districts has established a committee of district financial leaders to provide financial advice for district planning and development. None of these districts has established a financial agency of its own to provide a source of funds and advice to district businesses. These multicounty agencies will never be effective without the active participation of the bank and savings and loan presidents in each district. In Kentucky, financial institution leaders are generally unaware of the district councils and their activities. Kentucky is fortunate in having a state agency, the Kentucky Industrial Development Finance Authority, whose director spends all his time helping businesses find financing. It may be that states without this advantage but with a more effective financial system achieve better rural development. States without coordination and with no better banking system may do worse.

Although there has been no overall study of financing development in America, research conducted in a number of areas suggests that financial conditions in the rural areas of Kentucky may be typical in many states, especially in those that restrict branching.

FINANCING DEVELOPMENT IN THE REST OF THE UNITED STATES

Studies of banking in Kansas, Minnesota, Indiana, Illinois, and Appalachia, and other states confirm that limited branching leads to limited competition and to a poorly functioning rural financial system.[8] The characteristic performance of most rural banks in these states is the same: low loan volume, high volume of treasury bill holdings, reluctance to lend to unfamiliar types of businesses, lack of cooperation in community development, and lack of awareness of responsibility for economic development.

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[5] Branches are limited to the county, but home office protection prevents intracounty branching in many towns. Holding companies are not permitted.

[6] Only six new charters have been issued in 15 years.

[7] See "Banking in Kentucky," p. 54.

[8] See p. 13 for bibliography.

Many states have programs that assist in their efforts to attract and expand commerce and industry; 23 states have business development corporations to provide long-term debt. Eleven states guarantee loans made by private lending agencies, similar to SBA's guaranteed loan program; six states operate direct-lending agencies. Forty-four states authorize municipal revenue bonds.

The importance of finance is often overlooked in these efforts at industrialization, however, because of the overemphasis many of them put on attracting subsidiaries and plants of large firms. These businesses generate their own internal capital funds and have access to the national capital market. Industrial development agencies generally give less emphasis to developing new, home-grown businesses, and in helping existing firms expand. This emphasis is natural in the political climate that demands impressive short-run employment gains at the expense of more balanced long-run development.

A long range goal to encourage small business is essential for rural development, and every state should give attention to the effectiveness of the rural financial system that supports the development program.

The study conducted for Congress by the Federal Reserve Board in 1958 [9] showed that small businesses have difficulty finding long term debt and equity funds. There have been few changes since 1958 that would make these conclusions different today, even though a new institutional form of equity, the small business investment corporation, was invented as a result. It seems apparent that regardless of the success of the S.B.I.C. program, it has probably not provided much additional equity to small rural businesses.

The securities laws in the United States belong to the legal profession; development planners and economists seldom give them much consideration. The people who work in development finance seem to give little attention to the sources and problems of finding equity funds. And yet, balance sheets that show higher equity can support higher debt; the problems of providing more debt for development could be partially solved if more equity were available.

For all investment ventures, the lower the risk, the easier it is to find either debt or equity funds. More funds would be available to rural firms if their owners had better planning, economic, and business skills. More funds would be available if lenders and investors were better able to evaluate risk. Rural borrowers and lenders, especially, need to upgrade their business skills.

PROPOSALS FOR STIMULATING AND INCREASING THE FINANCIAL SUPPORT OF RURAL DEVELOPMENT

The American economy operates as a result of the decisions of private individuals who seek economic gain. The private sector controls the bulk of capital funds and their uses. Government can supplement these funds and help encourage the direction of their flow, but government must accept the primary role of private control of lending and investing.

The government can play an important part in directly supplementing the volume of funds available for rural development from private sources. It is clear that rural areas are not able to generate as large a volume of savings as urban areas, and will therefore need more funds. The trend in the flow of rural capital funds has been the same as the trend in the flow of rural population—to urban areas. Reversing the flow of funds is not likely to occur without a dramatic move to indicate a national change in values and goals.

Probably more important, however, is the need to change the attitude of a more important group: the business, financial, and political leaders in rural areas. There is no reason to think that they are all committed to rural development, but a dramatic move could help generate the necessary change in attitude in both population and leaders.

An indication of congressional intent will be necessary to provide a second important change for rural improvement: an improvement in the rural financial system, and in rural banks, the core of the system. Rural banks must become larger, more modern, and more competitive. Above all, they must accept their responsibility and importance in economic development. The rural banking structure should be changed by expanded branching and by allowing holding companies to operate.

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[9] "Financing Small Business," Report to the Committees on Banking and Currency and the Select Committees on Small Business, 1958.

Multicounty districts can be strengthened if district banks were allowed to branch in all the counties. Banks which cannot branch out of their county are not likely to be concerned with the economy of the other counties in their district. In fact, they may continue to perpetuate intercounty rivalry, which prevents the district from becoming a strong economic unit.

The attitude of bank regulators, especially at the federal level, must also change; bank regulation must recognize the importance of banking in the development process. Regulatory agencies should consider bank performance in support of local and regional development when they examine banks. Aggressive lending should be a worthwhile goal for banks, in addition to the safety of depositor funds.

THE FEDERAL RURAL DEVELOPMENT CREDIT SYSTEM AND BANKS (S. 2223)

A new credit institution created especially to provide financial support for rural development would be a dramatic indicator of the need to restore a balance to national economic growth. It would signal the intent of Congress and the nation to a redirection in values and goals. It would focus both urban and rural attention on the need for rural development and help get the commitment from the population in both areas.

The Rural Development Credit Banks would increase the amount of capital funds available to rural commerce and industry. It would stimulate greater use of rural funds for rural businesses. It would stimulate and improve the performance of rural financial institutions and spur them to provide financial leadership and assume responsibility for local development. The Rural Banks would provide channels for a two-way flow of funds between urban and rural areas. It would be a major step toward equalizing the urban and rural financial systems.

Two aspects of S. 2223 appear to be particularly important: Section 501, which provides technical and financial assistance to rural areas; and Section 710, which adds a financial capability to the multicounty development agencies. The availability of technical and financial expertise will help assess and reduce the risks of rural businesses. The result will likely be to increase lender and investor confidence and increase the volume of capital funds flowing to rural businesses.

The addition of financial ability to multicounty development agencies would help redirect their emphasis from a planning and political orientation to that of economic development. These agencies will not be given a full trial unless they are integrated into their regional economies. They cannot become effective by preparing district planning documents and acting as a tool of grantmanship. They must also participate in the job-creation process. Their ability to advise and finance rural businesses would make them development agencies in fact as well as in name, and give them the power and focus that they were originally intended to have.

S. 2223, to create a Federal Rural Development Credit System, would be a major step in improving the quality of living in both rural and urban areas. It deserves the support of everyone concerned with the quality of life in this country.

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Senator **ALLEN**. Thank you, Dr. Hopper. I appreciate your testimony. You certainly have a good grasp of the credit structure and the credit needs there in your area in Kentucky. I appreciate your coming and sharing your knowledge, or some of your knowledge, and some of your views with us.

I wish you would tell me a little bit about the Spindletop Research Center.

Mr. **HOPPER**. Spindletop Research is a nonprofit research organization established by the Commonwealth of Kentucky. And it is competitive with Southern in Birmingham. It is one of a number of regional not-for-profit research organizations, unique in the sense that the Commonwealth established it. We have a very close working relationship with the Commonwealth, but we are not controlled by it, we are independent of it. So we are seeking research contracts wherever we can, because we have to break even or make a profit to survive.

Senator **ALLEN**. I didn't realize that Southern Research goes over into the field of business and finance. I thought it was strictly engaged in research along scientific and medical lines.

Mr. **HOPPER**. Southern has been in medical research for many years. But they have a little bit of economic and business capability. I think it comes and goes. But this is not their major orientation. And when I say competitors I guess I mean potential competitors. We compete with Gulf South in Baton Rouge, which does very much the same sort of thing in planning, regional and area development.

Senator **ALLEN**. These are multicounty development agencies, if they were properly implemented, they are designed to serve a useful purpose; are they not?

Mr. **HOPPER**. Yes, sir. They are designed to remove some of the problems we have in having too many counties. In Kentucky, we have 120 counties. One of these counties has only 2,220 people. We desperately need to coalesce some of these political subdivisions such as counties into something bigger for development purposes, and these agencies are, in theory, good vehicles to do that.

But I am a little bit disturbed at their progress so far with the direction that they have taken. I am sure that it was to be expected, but I am concerned that the agencies have not involved more influential people such as bankers and other financial leaders in their operation.

Senator **ALLEN**. Your point touches home, because recently I went with a group of Alabama constituents to visit a governmental agency, and they were suggesting action through the multicounty development agency. Some of them in the delegation knew who all was on the agency, so they called back home and found out that one of the constituents in the delegation was a member of the agency back home, and he didn't even realize it.

Mr. **Hopper.** They don't seem to have any meaning. It is a peculiar sort of thing. You have a lot of these paper organizations. In Kentucky, we have two or three that aren't. We have some that are funding and financing and entrepreneuring, and it is going to be interesting to watch them. Whether they are successful or not, they are trying. I figure the chances of their success are better than some of these others that are playing a game of grantsmanship, which is what most of them do.

Senator **Allen.** Has the State set up any lending agency in support of rural development?

Mr. **Hopper.** There are a number of States which have a series of different kinds of institutions. There are 23 States which have passed legislation for organizations called business development corporations. They are long-term lenders, who are not exclusively devoted to rural areas, but they are available to rural areas. A number of States have direct lending programs—Kentucky has one. A number of States have guaranteed lending programs that go beyond SBA's lending limits. A number of States, of course, have industrial development bonds, which I said seems to be better for bigger business. Some States are trying to encourage the small business investment corporations, but they don't seem to be working too well in rural areas. There is a limit, really, to even the State organizations that are trying to help rural areas. And, of course, once again, some of those State agencies are not in rural areas, their emphasis is on urban lending. So even some of these special financial systems are not doing the job that we would like to see them do for the rural areas.

Senator **Allen.** How well do the present Federal lending agencies support the rural development?

Mr. **Hopper.** Well, I think they do as well as they can. But they are limited, first, of course, to funds. They are limited, second, according to their program. EDA is only allowed to lend in designated areas. In Kentucky, less than half of the 120 counties designated. SBA has drifted over into a guaranty program. And, finally, they usually depend on a local bank for funds.

Senator **Allen.** What about the farm credit system?

Mr. **Hopper.** The FCA doesn't lend to business. It apparently does a great job in agriculture. We found in our credit study that in 1960 the FCA system held 22 percent of all agricultural loans in the State and in 1968 that figure had gone to 35 percent. Now, in contrast, the banking system held 46 percent of the loans in 1960, and the figure had dropped to 40 percent in 1969. So the FCA has been picking up lending slack here that the banking system did not pick up. But the FCA does not lend to businesses and it still leaves a gap in small and medium businesses lending in rural areas.

Senator **Allen.** I was interested in comparing both your own comments and Mr. Denman's comments about the smalltown institutions and their departure from the scene. Your comments were along the line that the rural banks were not doing an adequate job, possibly on account of lack of funds, and lack of know-how. And one of your proposed solutions is that there be some way to work through the rural development bank, and that there would be some way to get rural funds. But it seems to me that your thought of branching might destroy some of these smalltown institutions, or certainly weaken them in doing a good job. They would lap up some of the available funds themselves, making less available for the smalltown institution.

Mr. **Hopper**. Well, remember, that the distinction we made was that we don't get too far away from the local community with branching. We are talking about district branching among counties. That to me is still sort of local. We are not talking about statewide branching or national branching, we are still talking about branching within almost contiguous counties. I have a feeling that banks which want to survive and can survive and want to grow are going to grow in that environment and not be destroyed. The ones that are going to be destroyed are the ones that are ready to fold up right now, and there is a tremendous number of those in existence. Now, other people can talk about the kind of branching system they want, but this is mine. Mine is bound by economic district lines. But we are talking about an intercounty flow of funds and intercounty operation of the financial system, And if you consider that there may be counties short of funds, and counties in the same district which are long on funds, it is a crying shame that you can't get those funds transferred back and forth between those banks in different counties. We made projections in the credit study as to the credit needs of housing, agriculture, and business in the next 5 years.

We found that there is a good deal of variation between the availability of funds in counties—and between counties. Traditionally when a banker doesn't want to loan the money out, when he wants to be liquid and feel safe, he puts his money either in a correspondent bank in Louisville, Cincinnati, or Nashville, or he sends it to Washington by buying bonds, Now, if that same banker could move that money instead to the next county, or if he could in some way or other move that money around the district, he would be maintaining the local use of those funds. That is what I think this branching system will do.

I am also sure—this is aside from the issue—that there are too many of these small banks, and a lot of small banks don't need to survive, because they are too small. We are talking about nearly 5,000 banks that have less than $5 million in deposits, and we have to see a lot of mergers to make this system more viable.

Senator **Allen**. Now, I note on page 4 of your prepared statement that better rural credit sources will not help in attracting multinational and foreign corporations that generate their own capital. Does it follow that if rural America is to attract this kind of capital that we will need to establish a kind of rural location incentive payment or some other incentive? Would you care to comment on that?

Mr. **Hopper**. Yes, sir; I think it is obvious that the market—the free market—is not going to allocate a lot of firms to the rural areas. I think that there are some kinds of firms which will automatically go to the rural areas. And I think those firms don't need any incentives. But I think we need to distinguish between the two. I think we ought to think about some sort of incentive for the kind that can go both ways. As an example of the kind that can't go both ways, we have a plant in western Kentucky, the Westvaco Co., where the local community put up $80 million, floated municipal bonds, and put up a brand new plant for that national company. And yet, that national company cannot locate in an urban area, it has got to locate in somebody's rural area. That company doesn't need that subsidy. But there are a lot of simple type operations and a lot of clean-type operations, and a lot of operations that need to be close to their market, which would save money by being close to urban areas, and they may deserve to be compensated if they are going to expend their money on transportation and locate away from the urban areas. Yes, sir; I think we need to be judicial, but I think there may need to be some sort of compensation in some cases.

Senator **Allen**. On page 6, I note that you find considerable merit in the provision of subtitle (d) to designate and utilize financial subsidies of the rural development planning in the development districts. Would you expand on your evaluation of this bill in that regard?

Mr. **Hopper**. I believe that once you get these agencies, these multicounty development agencies, involved with lending, with assessing lending, with requests for loans, with the need to fund businesses in the area, I think that these agencies will become important. They might become so important that many county governments could lose their distinction.

Senator **Allen**. It would be a step in the right direction.

Mr. **Hopper**. Yes; I believe if we will do this we can solve two or three problems at one time.

Senator **Allen**. You feel that that is a definite field of operation for rural development banks contemplated by this proposed legislation?

Mr. **Hopper**. I believe there is a vacuum in funding here. When I say funding, I am speaking of credit primarily, although equity is a problem we haven't even talked about much. This system won't help too much with the equity problem, but it can provide advice about sources of equity, and that is important. But I believe that small rural businesses have so few sources of funding that we just need to offer some more, and I think this bill would offer some more. I think it would be an important movement forward in providing funding for small businesses in rural areas.

Senator **Allen**. What is your availability of equity funds in the rural areas?

Mr. **Hopper**. Well, the rural areas, I guess it is fair to say, must depend mostly on private sources—on the personal savings of individuals, relatives, and this sort of unrecorded funding, which we don't know much about. There is another source of equity available, the Local Development Corp. The LDC, in effect, can provide a form of equity. It builds on the entrepreneur's own money. And allows him then to leverage his equity with two or three other lending agencies. We probably need to get into the issue of the security laws to see if we can't expand the expemption funding. In the study we are doing for the State of Kentucky right now, we are looking at this closely. But most exemptions limit the number of offerees or buyers. I think we need to make it easier and cheaper for local people to sell stock to local people. But that is another issue, I guess.

Senator **Allen**. What do you think of the tax-free revenue local development bonds as a method of financing plants?

Mr. **Hopper**. I must confess that I have a mixed opinion. The example I gave of the Westvaco Co., I think, was an extreme example of how the system can work. We have a $5 million limit on bonds now, and my offhand comment—it really is offered without having done any work on the subject, is that it works pretty good.

We are dealing with small firms and medium firms. These are the ones that really need the help. I see no point—well, at this stage, I see very little point—in subsidizing the major corporations which are going to locate in the rural areas anyway. Subject to the provision that I made earlier about the need for a subsidy if firms could go both ways, there may need to be some change. I think this system has been fairly successful in some areas, but I have not assessed it. I don't know if it has attracted many urban firms into the rural areas, and that is what we were trying to do. What we may have done is simply to attract some rural businesses from one State into another, because not all States have this program right now, and not all of them are as successful as others.

So to repeat my answer, I think I have mixed feelings about this system.

Senator **ALLEN**. These studies that you have, would you make them available to the committee. Also you mentioned another study that you thought you would probably go through with before the year's end.

Mr. **HOPPER**. Yes, sir; I will.

Senator **ALLEN**. If you would send us a copy of that, we will file it with the committee.

Mr. **HOPPER**. I will.

Senator **ALLEN**. We appreciate very much your testimony and your coming before the committee and giving us the benefit of your views and experience. It will be most helpful to us.

Mr. **HOPPER**. I am pleased to be here. Thank you very much.

Senator **ALLEN**. We will place in the record at this point, a statement by Senator John C. Stennis of Mississippi.

(The statement is as follows:)

STATEMENT OF HON. JOHN C. STENNIS, A U.S. SENATOR FROM THE STATE OF MISSISSIPPI

Senator **STENNIS**. Mr. Chairman, I appreciate the opportunity to place in the hearing record a statement on S. 2223, the Consolidated Farm and Rural Development Act.

I am a cosponsor of this legislation. I view it as urgently needed, and essential to the revitalization of our rural areas. The latter, in turn, is essential to balanced growth of our country in the coming decades. That we must have balanced growth, and put an end to the urbanization of the vast majority of our population, is so well accepted in principle that there is no need to belabor it.

The President's Task Force on Rural Development recommended establishment of means by which rural areas could have greater access to capital, which they must have as the first, and most difficult, requirement for development of jobs and the creation of local economic growth. This legislation is responsive to the recommendation of the task force, and it is responsive to the practical problems that exist in the small towns and rural communities of our country today.

We are all too familiar with the problems that have been caused by the vast migration to the cities, and what it will cost to cure them, if indeed a cure is possible. They include almost every aspect of community life—high costs of living, inadequate transportation, ghettos, poor schools, pollution, high crime rates, growing welfare rolls, the unemployed and the unemployable, deteriorating inner cities, and bankrupt local governments—the full gamut of tremendously expensive and frustrating national problems.

Those who migrate from rural areas to the big cities are, of course, in search of economic opportunities. They are looking for jobs. For the most part, they are young people, who may not wish to leave home, but are forced to do so if they hope to prosper.

The State of Mississippi increased moderately in population between 1960 and 1970, by about 1.8 percent. Nevertheless, of the total of 82 counties in Mississippi, 48 counties declined in population. These are rural counties, of course, for we are, in general, a rural State. There are 23 counties in Mississippi that the census indicates as having no urban population. That is, there are no towns of 2,500 population, or more, in those counties.

The rural problems, then, are very close to us, and very important to us. I agree with the President's Report on Financial Assistance to Rural Areas, where it says that "rural development is primarily dependent upon expansion in nonfarm job opportunities in rural areas." There is no way to create the jobs without providing a stimulus in the way of capital investment. This bill is designed to do exactly that.

Mr. Chairman, in the Agriculture Act of 1970, passed last October, the Congress committed itself to a sound balance between urban and rural America—to the revitalization and development of rural areas. S. 2223, the Consolidated Farm and Rural Development Act, will make great strides toward fulfilling that commitment. I urge that the bill receive the favorable action of this subcommittee. Thank you for receiving this statement.

Senator **Allen**. The subcommittee will stand in recess until 9 o'clock in the morning.

(Whereupon, at 4:05 p.m., the subcommittee adjourned to reconvene on Wednesday, September 22, 1971, at 9 a.m.)

RURAL DEVELOPMENT

WEDNESDAY, SEPTEMBER 22, 1971

U.S. SENATE,
SUBCOMMITTEE ON RURAL DEVELOPMENT
OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:10 a.m., in room 324, Old Senate Office Building, Hon. Hubert H. Humphrey (chairman) presiding.

Present: Senators Humphrey and Bellmon.

Also present: Senator Burdick.

Senator HUMPHREY. We will now open the hearings.

This is the second day of our hearings this week on S. 2223 introduced by Senator Herman Talmadge and myself, and on amendment No. 153 introduced by Senator James Pearson to the pending Farm Credit Act legislation.

I want to thank Senator James Allen of Alabama for sitting in for me yesterday.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator HUMPHREY. Not long ago, this subcommittee heard testimony from an economist who suggested that the kindest thing we in Government could do is let towns of fewer than 50,000 people die a quiet death.

Now this gentleman represented a major planning organization, and I suppose that he qualified as an expert in certain fields.

But I think all of us on this committee would agree that what he said was nonsense.

He could not have read USDA's Economic Research Service material which shows that small towns of 1,000 population are one of the fastest growing segments of our Nation.

But he also missed another important point. This committee as well as the present administration believe that it is time we plan for balanced national growth in America.

We still hear from a few people who simply don't believe that there are any alternatives to urban sprawl.

There are others who say that the trends of the last five decades are irreversible—that there is nothing that can be done to keep people from moving to the metropolitan centers.

I think that's wrong thinking.

A number of respected polls—by Gallup, the Minneapolis Tribune and others—show that most people would prefer to live in rural America if the opportunities were made available to them there.

Look at the ads in the papers for mountain property, beach-front property, get-away-from-it-all, and other escape developments. It must be paying off. I understand they take you to dinner and give you a silver tea service or something if you buy property.

Why do people flock to their own little plots of grass in some suburb even though they may lack many amenities like parks, sewers, and adequate fire protection? Someone once called them "slurbs."

Uncontrolled suburban development is part of a system that is creating strip cities along our coasts.

I believe strongly that there is a future for rural America. I believe that our farmers can be assured a decent living, and that we can infuse investment capital into the small towns to provide a diversity of employment opportunities.

I believe we can give people what I call a "Freedom of Residence" so that they can choose where they will live rather than being literally forced out of their hometowns because of lack of opportunity.

C. Phillip Baumel at Iowa State University Extension Service wrote an interesting paper a few years ago that makes an important point.

He wrote that in the early days of our country, the availability of natural resources in an area was an important factor governing the location of industry.

But now, he says, we have complex and relatively efficient transportation and commuiications systems, which means that a substantial number of jobs do not have to be located in any particular place.

On this premise Baumel calculates that about half of the labor force in our 400 to 500 metropolitan areas—people who are engaged in export-oriented work—is composed of workers with jobs which can be located anywhere.

As we all know, one-fifth of the population of this country moves every year. And Baumel estimates that out of a total labor force of 80 million workers, 2 or 3 million people a year could be influenced to locate in smaller towns if the jobs were available.

We will have an additional 100 million people in the next few years, and clearly business will expand to serve their needs. The question is, where will it expand.

I believe the legislation before us today by Senator Pearson and myself addresses itself to the beginnings of a solution of the problems confronting us in regard to national growth.

Rural America is starving for investment capital. In many places you can't get enough credit to buy a decent home. Thousands of communities don't have water and sewer systems, because they can't raise the money, or because the Government won't release the grant money.

These measures we are discussing would inject new investment capital into rural America and offer incentive to business and industry to locate in rural areas.

Rural America needs more than rhetoric and flowery promises on the national growth question. It needs action. And that's what this legislation is all about.

In a report on regional variations in economic growth and development, the Agricultural Research Service concludes:

> Rural development problems are multifaceted in nature, and are not likely to be solved by a collection of single purpose programs, each directed at a segment of the overall problem.

> Rather, a rural development program is needed which moves on many fronts at once, and simultaneously deals with many segments of the problem. Findings of this study indicate that efforts to close such a gap need to involve coordinated programs relating to quality of the labor force, labor force participation, local government services, industrial occupation mix, higher-wage jobs and availability of central city services, to rural residents.

Both of these proposals here today stress this broad approach, treating not only commercial development but vocational training, community services, and the whole quality of life. Both proposals rely heavily on regional planning.

I believe some form of this legislation must be passed if we are really going to renew the countryside—if we are really serious about a national growth policy.

I have a statement from Senator Milton Young of North Dakota which will be placed in the record at this point.

(The statement is as follows:)

STATEMENT OF HON. MILTON R. YOUNG, A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator YOUNG. Mr. Chairman, may I take this opportunity to express by appreciation to you and other members of the Subcommittee for your prompt action in scheduling hearings on legislation designed to expand the availability of investment and development capital in rural America.

I have always felt that the basic strength of rural America has been and will remain in agriculture. A strong agricultural economy is essential to maintain, not only rural America, but to a large degree, the strength of industrial America. Directly or indirectly, agriculture provides more jobs for Americans than any other occupation. Farmers are the largest consumers of petroleum products, chemicals, steel and rubber products. Maintaining and improving our agricultral economy can and should be our primary rural development concern.

A brief review of the development of this, the greatest nation in the history of the world, reveals that we have always looked to our rural areas for the resources to meet pressing needs and to spur our growth as a nation.

In the early years of our national life, this was only natural as there was undeveloped, untamed land facing the nation as it looked westward. The Federal government recognized this need and responded with aid to assist the railroads in spanning the Continent, with the Homestead Act, and similar land grant legislation to aid millions to realize the dream of farm and ranch ownership and to settle the land; and in a myriad of other programs designed to open up the new land and to make its products available to the nation and the world.

As the frontier passed, a period of consolidation took place and the flow of people into the rural areas gradually reversed. An expanded industrial economy demanded a larger work force. The rather rudimentary cultural facilities and opportunities in many rural areas caused some to seek a livelihood in urban areas. For these and other reasons, the nation's rural areas have experienced a net out-migration for the last 30 years or more.

We have now reached the point where 70 percent of our people live on less than two percent of our land area. Our great cities are faced with crushing social and economic problems that threaten to engulf them. More and more of our people are expressing dissatisfaction with the quality of life even though we enjoy a standard of living unprecedented in the history of the world.

At a time when we are groping for solutions to the problems confronting our urban areas, it is rather incongruous for our rural areas to be faced with many similar problems—often for the opposite reasons.

Diminished population in rural America has led to the decline, abandonment or failure to establish the necessary services to support the standard of living most Americans demand. The lack of these services has caused many people to leave the rural areas and delayed or prevented many others from returning.

An even more basic problem exists, however. This is the lack of employment opportunities for people in rural America today. Each year thousands of well-trained young men and women leave the high schools, colleges, and universities of rural America. A high percentage of them are forced to join the trek to our urban areas because of the limited opportunities available in rural areas.

In recognition of this most basic problem, President Nixon's Task Force on Rural Development made a number of far-reaching proposals aimed at strengthening rural America and providing a better balance of population.

Congress, too, has recognized this need. Title X of the Agricultural Act of 1970 stated:

"The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas."

Rural development has been a subject of discussion, debate, research, and review for years. There is virtually universal agreement that strong steps need to be taken to renew the vigor of life in our rural areas and to lay the groundwork for national growth during the balance of this century and beyond. There have been some substantial efforts in this direction in recent years and these have produced a number of notable results. These, however, have been too limited in scope and too few in number to even dent the total problem.

I feel strongly that the bills before this Subcommittee provide a framework for meeting one of the most critical needs of development and expansion in our rural areas—the need for investment and development capital. I am a co-sponsor of the legislation introduced by the distinguished Senator from Kansas, Mr. Pearson, as well as S. 2223 introduced earlier this year by the distinguished Chairman of the Subcommittee and the distinguished Chairman of the full Committee on Agriculture and Forestry.

I have joined in sponsoring these efforts because I feel these proposals provide a vehicle for the development of programs to meet the needs of rural areas for investment capital.

In making a decision on the selection of a place to live, Americans today must answer many complex questions. What are the employment opportunities? What are the social and cultural opportunities? Are educational facilities adequate? These and other questions must be answered. Too often a negative or unfavorable response to at least one of these questions rules out life in rural America.

It is my hope that this Committee, working with our colleagues in the Congress, with the Executive departments, and with interested groups and individuals from throughout the nation, will be able to develop legislation aimed at dealing with a number of these problems.

I do not wish to portray rural life as undesirable. Having had the opportunity to enjoy it as an active farmer for the better part of my life, I feel there is no better place to raise a family. Nowhere else can one feel the very real sense of renewal and growth as the seasons pass. Given the supporting elements we deem essential today, Americans can realize the "good life" to an extent previously undreamed of by a return to our rural areas.

I would like to express my appreciation once again, Mr. Chairman, for the effort being put forth to formulate solutions to one of the most basic problems we face today. There is an urgency to this and I sincerely hope that we can move forward to the development of programs that will provide meaningful and workable solutions.

Senator HUMPHREY. We are very privileged to have Senator Strom Thurmond of South Carolina with us. And we are not going to take any more of his time than we have to. We are going to have the Senator proceed as he wishes.

We welcome you. Thank you very much for coming, Senator.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman, and gentlemen of the committee.

It is indeed a privilege for me to appear before the Subcommittee on Rural Development concerning a subject which I believe is of vital importance to the future of this country.

President Nixon has recently taken bold steps to restore our economy, and he has called upon Congress to help him in this endeavor. However, for our economy to continue to prosper after it has recovered, it is imperative that we implement the necessary programs to revitalize and stimulate the economic development of the rural areas of our country.

Mr. Chairman, in the Agriculture Act of 1970, Congress recognized the need and committed itself to the development of the rural areas of America. In title IX of that Act Congress declared:

> The Congress commits itself to a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas.

Recent census statistics demonstrate the continuing trend of population shifts in this country from rural areas to metropolitan centers. Presently, over 73 percent of our population lives on only 2 percent of the land area in America. It is estimated that if this trend continues, within 30 years more than two-thirds of our people will be living in three or four giant megalopolitan strips.

The question that must be answered at this point is, "What do these statistics mean to the quality of life in America?"

An examination of the conditions in our larger cities affords an obvious answer to this question. However, the migration from rural to urban areas not only places an unbearable burden on our cities, but it is also a major factor in the degradation of our rural areas.

Most cities were not designed to accommodate the mass influx of population which they are presently experiencing. Even the most progressive and economically stable cities simply cannot keep abreast of this influx. The result is that vital services which people need are not available. Our cities are decaying from within because of the overbearing burdens upon them.

Mr. Chairman, the problems in our cities are indeed serious, however, they are recognized. In our news media we are constantly seeing and hearing of the plight of our metropolitan areas. In Congress we hear continuous oratory and are continually called upon to appropriate funds to aid our cities.

The attention our cities are receiving to the exclusion of our rural communities has not only resulted in the neglect of our rural population, but the answer to the problems in our cities has been obscured as well. As I previously indicated, migration to urban centers has placed a strain on the vital services offered city residents. This trend has been even more damaging to the vital services needed by our rural citizens. For example, for the period 1967–68 more than $600 was spent per pupil in urban areas whereas the expenditures per pupil in rural areas were more than $100 less. In 1970, the unemployment rate in agricultural work was 7.5 percent compared with a national rate of 5.2 percent in other occupations.

Mr. Chairman, there is an imperative need for programs to revitalize the economy of the rural areas of this country. If such programs are initiated the economy of our country will be greatly benefited and the quality of life in America will be vastly improved. Both the rural and the urban areas of our Nation will benefit. With the economic revitalization of our rural communities these areas will prosper and the quality of life therein will be improved. This improvement will carry with it a reversal of the trend of mass migration to the cities and will enable metropolitan areas to catch up with the needs of urban residents.

Mr. Chairman, the way in which our rural communities can be economically revitalized is for there to be made available the necessary financing for economic growth. Available capital is a necessity and I heartily endorse the purpose for which these hearings are being held—to fulfill the need for rural development credit and investment legislation.

The President's Task Force on Rural Development recognized this need and said:

> The Task Force recommends a new credit institution to provide rural areas with greater access to private capital. This institution—to be named the Rural Development Credit Bank—should be structured in law as a wholly new title in an amendment to the Farm Credit Act.

The distinguished Senator from Kansas, Mr. Pearson, drafted this proposal into legislation and I was a cosponsor when it was introduced in the Senate. While I am a cosponsor of the Pearson bill, S. 742, and not of the pending bill under consideration, S. 2223, I believe that the purpose of these two bills is the same. The primary intent of both is to provide the necessary investment and venture capital for the rural areas of our country.

Mr. Chairman, it is my hope that your subcommittee will act favorably on legislation to accomplish the primary intent of S. 742 and S. 2223 to make available the necessary financing to revitalize our rural economy. To that end I pledge my support.

Senator HUMPHREY. Thank you very much, Senator.

We are, as you have indicated here, giving consideration at the same time to S. 742, and the objectives of the two bills, S. 742 and S. 2223, are identical. And we welcome your support of this intent and of the basic structure of this legislation. Obviously by the time we get through with these hearings we will make some alterations and changes, as we all know. That is the purpose of our hearings, to find out how we can improve it.

Senator Bellmon, do you have any questions of the Senator?

Senator BELLMON. Mr. Chairman, I would like to ask only one question.

In your statement you have figures comparing the cost of education in rural and urban areas. Have you ever seen figures comparing the overall costs of government in the rural areas compared to a large city? I am talking about the costs of police and sewage and transportation and all the rest.

Senator THURMOND. I haven't seen any recent figures. Some years ago I think I saw some figures showing the cost of government in cities as being very much more than in rural areas. But I haven't seen anything recently on it.

Senator BELLMON. It seems to me that the Federal Government has a real stake, aside from improving the quality of life and the productivity of our citizens, we have a selfish interest in trying to have our citizens life in circumstances where we can provide the services they require at a reasonable or even a minimal cost. I have never seen figures either comparing the costs of government in the various sized localities. And I wonder if they even exist.

Senator HUMPHREY. You may recall when former Secretary of Agriculture, Mr. Freeman testified, he gave us some figures along that line. I have been likewise interested in that, Senator Bellmon. And I think we will ask our staff to try, through the Library of Congress, or the Department of Agriculture or the Department of Housing and Urban Development, to see if they can't find some more reliable, credible figures that relate to the costs of services in communities of different sizes, for example, in a community of 5,000 as related to a community of 500,000 or a community of 2,000 as related to one of 2 million. I think I know what you are after. And I believe that there must be some very important statistical data. I think we could get that. We might even be able to get it out of the Census Bureau, they have figures on practically everything. We can check it out.

Senator THURMOND. Generally I believe it is true that the larger the government the greater cost in proportion. Which means that if we had more communities throughout the Nation, instead of piling these people into cities and urban areas, the costs of government should be much cheaper.

I know down at North Augusta, S.C., which is just across from Augusta, Ga.—you are familiar with it, Senator.

Senator **Humphrey**. Yes.

Senator **Thurmond**. The taxes on homes in North Augusta are probably a half or a third of what they are in Augusta, Ga. That is because of the cost of city services. I don't know whether they are more efficient in North Augusta or not. But it seems that the bigger the city the more patronage and the more expenditures are required to operate a government.

I don't know whether you have ever thought about this figure that I brought out about the fact that 73 percent of the population in the country live on only 2 percent of the land in America. That is an amazing figure. All the land we have in this country, why jam people up in New York and Philadelphia and Chicago, when we can get them out in the open, establish more industries and have smaller communities around? I think we would have far less crime, and more efficiency in the government, and healthier living, and a less polluted environment. And I have often thought it might be helpful to take steps to establish cities in the South and the West where there is plenty of land available, and encourage people to move out there. And it may be necessary for the Government to take some steps to get that going, in order to get people out of these congested areas where there is so much welfare, so much crime, so much pollution, and so much disease. And it is something, I think, that this committee might give some thought to.

Senator **Bellmon**. Mr. Chairman, on this cost-of-government services, I saw an article in the Sunday paper almost 2 weeks ago which had a photograph of this new highway to the Pentagon. And the person that wrote that article says that that 1 mile of highway is costing $56.1 million. And this impresses me, because the State of Oklahoma has a total of $60 million a year to maintain all our State highway systems, that is, our State funds, the Federal funds that come in for interstate are on top of that. But it costs them as much to build 1 mile as it does to maintain the highway system for the entire State of Oklahoma for a year.

The same thing is true for the subway. It is $3 billion for 90 miles, is the figure I remember. That is $33 million a mile.

Senator **Humphrey**. That is the earlier estimate, Senator.

Senator **Bellmon**. If we could somehow lump all these figures together—I think we would find that there would be a huge saving to State and local governments if we could cause our population growth to occur in a more orderly fashion.

Senator **Humphrey**. Mr. Thorton of the staff has indicated to me that there is a followup study by the Advisory Commission on Inter-Governmental Relations that will give us some information on this. And when we get that we will circulate it among the members of the committee, those that have any interest in it.

Senator, we want to thank you very much for a very fine statement. We welcome you here and thank you for your helpfulness.

Senator **Thurmond**. Thank you very much, Mr. Chairman. I know of your deep interest in agriculture as well as that of Senator Bellmon. And I feel and hope that something may come out of this effort under your leadership.

Senator **Humphrey**. I hope we can do so. Thank you very much.

We are privileged this morning to have members of the Independent Bankers Association of America with us for testimony. And I would like to ask Mr. Carlson, who is president of the Independent Bankers Association, to come to the witness table, and Mr. Parsch, and Mr. Du Bois.

Mr. Carlson is from Elmhurst, Ill., president of the Elmhurst National Bank.

And Mr. Parsch is the president of Lapeer County Bank & Trust Co., Lapeer, Mich., and chairman of the Federal legislative committee of the Independent Bankers Association of America.

And Mr. Du Bois is president of the First State Bank in Sauk Centre, Minn.

And I might add, Senator Bellmon, he and his family have taken the lead for years in the work of the Independent Bankers Association. And I see him here with justifiable pride and delight.

Pat, glad to have you here.

Mr. Du Bois. It is good to be with you.

Senator Humphrey. Gentlemen, the very first thing we want to do is thank you for your cooperation. I know that you have met with members of our staff and have worked together to improve the proposed legislation. And we welcome you here not so much with the objective of asking you to agree to what we have suggested, but to seek your counsel and advice. And it is the objective of this committee in its work to cooperate with you and not to try to bypass you or in any way take over the invaluable credit services that you perform for rural America.

I think we have found in our hearings as we have been out in the countryside the tremendous service that our bankers, particularly our independent bankers are performing. We were in Oklahoma and Nebraska just recently, and we found there that much of the leadership in the revitalization of local communities in rural America was coming from the rural bank, and from that local institution that was providing credit services to the farmers, the business people, and the homeowners. We also found out that there was a greater need than was able to be supplied.

So with that as an opening, we welcome you.

And Mr. Carlson, you go right ahead, or however you gentlemen wish to proceed.

STATEMENT OF DONALD M. CARLSON, PRESIDENT, ELMHURST NATIONAL BANK, ELMHURST, ILL., AND PRESIDENT, INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. Carlson. Thank you, Mr. Chairman. And thank you too for your kind remarks, and for letting us have the help of your staff. We have worked long and hard with them.

As you say, my name is Donald M. Carlson. I am president of the Elmhurst National Bank in Elmhurst, Ill., and appear here as president of the Independent Bankers Association of America, an organization with a membership of more than 6,600 banks in 40 States.

With me today are other officials of our organization, in addition to your introduction of Mr. Du Bois and Mr. Parsch, H. L. Gerhart, Jr., of Newman Grove, Nebr., first vice president of the Independent Bankers Association of America; Fred T. Brooks of Dallas, Tex., IBAA second vice president; Howard Bell of Sauk Centre, Minn., executive director of our association, and C. Herschel Schooley, manager of the IBAA Washington office. I asked these associates of mine to be on hand today in the hope that the presence of these members of the IBAA official family would underscore for this committee the great interest our association has in the Consolidated Farm and Rural Development Act.

Any proposal affecting rural America has a direct impact upon members of our association. Primarily, our membership consists of country banks in smaller communities. Recently, we conducted a study of the geographic distribution of our member banks that disclosed the following:

About one-half of our 6,600 members are located in communities having a population of 2,000 or less.

About two-thirds of our member banks serve communities having a population of 5,000 or less.

Finally, the study showed that 90 percent of our member banks are located in communities with a population of 30,000 or less.

Our record of concern for the welfare of rural America is well documented. We have conducted in-depth studies of the depressed farm income situation, published numerous articles on the subject in our magazine, sponsored conferences on agriculture, conferred with top officials of the Federal Government and testified before committees of the Congress.

Over the years, our primary concern has been a fair price structure for agricultural production. In pursuing that objective, we have worked closely with farm organizations and farm-oriented religious groups.

We like and endorse the objectives set forth in S. 2223. At the same time, we wish to express our concern about the additional, permanent banking system it would create. We would prefer an alternative that would operate, for example, in a manner similar to the Small Business Administration.

Now, to resume comment on the legislation before you. The proposal would channel much needed risk capital into the countryside. More jobs and a higher quality of life in rural areas would be achieved by this infusion. The goals which S. 2223 seeks to attain are identical to those that have been affirmed by our association for many years. A reaffirmation of these goals was most recently expressed by a resolution on rural development adopted at our 41st annual convention in Minneapolis last March. Here is the text of the brief resolution:

> It is increasingly recognized that many of the problems of our cities stem from the fact that rural America is unable to retain its people due to a shortage of economic opportunity.
>
> It is apparent that rural America must become a better place to live and work and play in an effort to stop the out-migration of rural people to the cities.
>
> Therefore, the IBAA will support legislation and other efforts at the local, state and national levels to promote the development of rural America.

One thrust of the bill that we like is its emphasis on the importance of good planning in developing rural areas. One of the best statements we have ever seen in this regard was enunciated by a distinguished member of this subcommittee, Senator Bellmon at a hearing before this group last April 23. The Senator observed, and I quote:

> An idea of the importance of rural development can be gained from a look out the windows of this building across the slums of this city where thousands of once rural people live in squalor. Had this Nation followed an intelligent, conscious and effective program of rural development during the past 30 years, Washington and sections of most other cities of this Nation would not today virtually be ungovernable, unlivable and unproductive.

It pleases us that the proposal before you contemplates cooperation and participation by existing commercial banks. Whatever procedures are set up to implement the objectives of S. 2223 will have a better chance of working well if bankers are active in the planning and execution of various programs.

Bankers in rural America know firsthand the problems of their areas. Their roots are deep in the countryside where their banks are located. A country banker has his entire financial stake in his community. My conviction is that the ultimate success of any program for rural development depends upon substantial involvement in the various programs by leaders in America's commercial banking system.

In attempting to analyze the impact of S. 2223, we have studied two prints of the bill, the latest of which is labeled a Star print. In a general way, this statement will offer comment on various provisions in the Star print. Our suggestions for specific changes are set forth in an appendix to this statement. The appendix keys the suggestions to pages, section numbers and lines of the Star print.

SUGGESTED CHANGES IN S. 2223

The bill defines a rural area as one that does not include a city or town having a population in excess of 35,000. We realize that it is difficult to establish a sound definition. But the one in the bill will impress many as being more urban than rural. Therefore, we propose that in administering the act special consideration be given to areas that include communities having a population of 10,000 or less. Without this directive to administrators, we fear that most improvements made possible by the bill would go to larger centers. This, in our opinion, would frustrate the main thrust of S. 2223.

We already have indicated our belief that the "rural area" definition in the bill is liberal. On page 12 of the Star print is language that spells out how administrators could broaden the definition even further. We believe this provision should be stricken. This language, too, offers a means of thwarting what the bill is supposed to accomplish.

Section 403 on page 19 of the Star print proposes that a participating institution assume full responsibility for the payment of principal and interest on a loan. As a practical matter, this provision alone would preclude participation in S. 2223 by commercial banks. We, therefore, propose the substitution of language that makes it plan that a participating institution is not responsible for repayment of principal and interest represented by an obligation originated by that institution.

Since the proposed legislation has as one of its objectives the raising of money in the central money markets and channeling those funds into the countryside, we are suggesting that this procedure be spelled out in the bill. If not, the possibility exists that an agency set up under terms of the bill would be competing in local markets for deposit funds that commercial banks require for proper performance of their mission.

Finally, on pages 97 and 98 of the star print, we propose language designed to protect the confidentiality of reports on the condition of commercial banks prepared by various supervisory agencies. Also, we propose deletion of language that would require the Comptroller of the Currency to make additional examination of national banks at the request of the Farm Credit Administration. The Nation's commercial banks already are closely regulated and supervised.

Mr. Chairman, that concludes my statement, but I ask your permission to include in the record the appendix attached to it. As mentioned earlier, the appendix details various changes that we propose.

We appreciate the opportunity of testifying on a bill of such great potential. If you have questions to ask me or any of my associates, we'll do our best to answer them.

Thank you.

Senator **Humphrey**. First of all, my thanks to you. And may I say we will of course incorporate in the record the appendix item that you referred to relating to references in the Star print of S. 2223.

(The appendix is as follows:)

Appendix

(All references are to Star print of S. 2223). P. 4, Sec. 105, (7) (A), line 18—

Change panctuation after "thereto" from a period to a comma, then add this language: *and special consideration shall be given to areas that do not include a community having a population of 10,000 or more.* P. 9, Sec. 201, line 13—

Insert *and participant*—between words "borrower-owned." P. 10, Sec. 201, subsection (6) line 13—

Insert between "complement" and "the" the words *the nation's existing network of commercial banks.* P. 10, Sec. 201, subsection (6) line 15—

Delete "urgently." P. 19, Sec. 403—

Delete lines 21, 22, 23 and 24, and substitute therefor this language: *ates such evidences of obligations as it shall sell to, insure or obtain guarantees for, or discount with such Agency. In no case shall a participating institution be required to assume responsibility for repayment of principal and interest represented by such obligation.* P. 35, Sec. 601, line 16—

Delete "branches" and substitute *offices;* P. 35, Sec. 601, line 18—

Delete "branch" and substitute *office*; P. 35, Sec. 601, line 22—

Delete "branch" and substitute *office.* P. 37, Sec. 601, subsection (10), line 15—

Between "borrow" and "money" insert: *in the central money markets of the nation*—P. 49, Sec. 607, lines 14 and 15—

Put period after "agency" and delete the words "and participating institutions." P. 97, Sec. 1003—

Delete lines 23 and 24, then substitute this language: *Administration to furnish for the exclusive and confidential use of a regional Rural Development Credit Bank such reports.* P. 98, Sec. 1003, line 5—

Insert period after "power." Delete the rest of line 5 and all of lines 6, 7, 8 and 9. P. 98, Sec. 1004, line 14—

Delete "bank of the" from line 14, and insert *regional* between "a" and "Rural." P. 98, Sec. 1004, line 15—

Delete all of line 15 and substitute therefor this language: *Credit Bank, for its exclusive and confidential use, file with such bank its written consent to ex-*

Senator **Humphrey**. I would also say we are working now with the Comptroller of the Currency to revise the language to accommodate the suggestions that you have made there. And we will have his cooperation in that.

On the item on page 7 in your middle paragraph, I think you are abolutely right, we must spell out in the proposed legislation the procedure that we would hope to use in raising money in the central money market for channeling these funds into the countryside, or at least to make it explicit that it is our purpose, not to drain off what would be deposit money for the normal banking structure. Such a development would be of no help at all. It would be just competing for the available resources in the community. And that surely is not our intent. And this warning flag that you have raised there is one that we definitely will take care of.

I have asked the staff to work with you, as you know. And the members of the committee have all wanted that to be done. The definition of a rural area is always subject to alteration. Really we just sort of slide in between several definitions that the Government has. It would be rather good to get a more clearly defined description of a rural area. And we will take a good hard look at what you have sugegsted here.

The tendency is, as you have said, to have these funds, go to longer areas, unless you pin it down. So we will be fully aware of that.

And on that part about administrators we need a broadened interpretation.

I am just noting this for the record so that we can check back again to make sure that we have not opened up a gate that can permit a wide definition of a rural area.

Now, to this part in section 403 which proposes that a participating institution assume full responsibility for the payment of principal and interest on loans. To probe you a little more on that, are you suggesting there should be a collateral relationship established in the bill between the local bank and the regional bank which would have the local bank be looked upon as a service institution not having prime responsibility for collection and for payment of loans?

Mr. CARLSON. I think we might assume prime responsibility because that is how we are brought up and made up. However, in the case of a small bank in the country with a capital and surplus of, let's say $250,000, the most that they could lend as a national bank would be $25,000. And we are talking, I am sure about loans much larger than that.

Senator HUMPHREY. Right.

Mr. CARLSON. So we couldn't legally guarantee these loans. So this would automatically close the doors there.

Senator HUMPHREY. Have you talked to Mr. Baker and the other members of the staff about this?

Mr. CARLSON. Yes, sir; we have.

Senator HUMPHREY. Do you think you have come to some understanding with them?

Mr. CARLSON. I think we have. Maybe Mr. Baker doesn't think so. But he understands our point very clearly. He understands, too, that both we as originators and the local agency would be supervising the loans at the outset to make sure that they are good loans.

Senator HUMPHREY. Absolutely. Of course, that is the basic purpose. The local bank has a better understanding of the community than any new established structure could possibly have. And one of the reasons that I felt it was so important to tie in the local bank in the commercial banking structure was because of that intimate knowledge it has of the community and the needs of the community, and what other resources are there.

We saw this, Senator Bellmon, when we were down in either Nebraska or Oklahoma—I have forgotten—I think it was in Oklahoma, at Perry.

Mr. Bellmon. Right.

Senator Humphrey. In Perry we were told of a local banker who, after everybody else had turned an applicant down, loaned the applicant the money he wanted because the banker had some understanding of this man's capability, his family's background, and the potential involved. He made the loan even though he was scolded by supervisory officials of the banking structure.

I am very sympathetic to your suggestion here.

Senator Bellmon. Mr. Chairman, could I ask a question?

Senator Humphrey. Yes.

Senator Bellmon. Mr. Carlson, you are not suggesting that the bank not assume any responsibility; you are suggesting that the bank take responsibility up to the limit?

Mr. Carlson. No, I am not suggesting that, sir. Hopefully each community will have a number of these things. And we just feel that it isn't proper for us to take this guarantee responsibility.

Senator Bellmon. You are not taking any responsibility?

Mr. Carlson. Not as guarantor.

Pat, did you want to add something?

STATEMENT OF PAT DuBOIS, PRESIDENT, FIRST STATE BANK, SAUK CENTRE, MINN., REPRESENTING THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. DuBois. I would like to reply to that.

I think the language in 403 as it presently is in the bill is restrictive to the point that any bank that is a participating institution that enters into the operation becomes basically responsible, fully liable for the principal and interest of the obligation of a loan so made. This would prevent almost all private banks from becoming participants. In fact, the requirement is unnecessary in view of the guarantee and insurance loans. Moreover, the institutions of the rural development credit system have final say on a loan anyway, so you don't need an endorsement by the private banks. I think as bankers we are perfectly willing to assume all the responsibility we possibly can in making the loan, servicing the loan, and protecting the loan as best we can. But when it comes to the actual liability for principal and interest payment, that goes beyond, I believe, the capability of our present banking system, or even a desirable capability.

Senator Bellmon. Under the Small Business Loan program, if you as a local banker participate in a SBA loan you assume 10 percent or 25 percent.

Mr. Carlson. Yes, sir—10 percent usually.

Senator Bellmon. Do you intend to assume a portion of the responsibility here?

Mr. Carlson. We can't answer that question because we haven't deliberated upon that.

Senator Bellmon. I can't quite see a system working if the individual or the institution making the loan assumes no responsibility for it. You would have some pretty sweetheart deals.

Mr. Carlson. Is it all right if I disagree with you, sir?

Senator **Bellmon**. I can't see why you wouldn't—perhaps you wouldn't, but I can think of bankers who might put together some shaky schemes.

Mr. **DuBois**. The thrust of the legislation provides that the farm credit agency has the final say as to the worthiness of the loan. The bank doesn't have, as the bill is presently written, the bill doesn't presently provide that the bank shall have the final say as to whether or not the credit shall be granted.

Senator **Bellmon**. They don't under the USBA program either.

Mr. **DuBois**. That is right.

Senator **Bellmon**. The bank still retains a share of the responsibility.

Mr. **DuBois**. I think that if this bill finally went in that direction that there would not be too much quarrel from the banking industry for a participation of some type, because the bank could pick and choose.

STATEMENT OF ROD L. PARSCH, PRESIDENT, LAPEER COUNTY BANK AND TUST CO., LAPEER, MICH., AND CHAIRMAN, FEDERAL LEGISLATIVE COMMITTEE, INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. **Parsch**. I would like to talk to that point too, Senator Bellmon.

On SBA loans I am sure that all commercial bankers, with the language that is written in the bill—it is similar to SBA loans as indicated by President Carlson, that the bank would assume that responsibility without any question at all. I don't think there is any question on that particular point that you have made that the banks would assume that responsibility.

Senator **Humphrey**. Under the delegation of powers in this bill, or delegation of authority, each loan is negotiated independently, and the arrangements for each loan in a sense are negotiated separately and independently, and therefore I suppose the degree of participation of each bank would be negotiated separately or independently, and the arrangements for repayment.

I think the point that you were raising, Mr. Carlson, was that the total liability was far too much.

Mr. **Carlson**. Yes.

Senator **Humphrey**. And I think that is true. And if the language indicates that, I think we have to alter it.

And now that we have raised this point I think we ought to go into it very carefully. That is the whole purpose of this hearing. We are not ready to do any final work on the bill yet. We will flag that one, and look into it and get back to you. Because we want your cooperation on it so that we can work out a mutually agreeable situation here.

Senator Bellmon, do you have any more questions here?

Senator **Bellmon**. If I may, Mr. Chairman, I would like to raise two points.

Senator **Humphrey**. Would you ask about that suggestion one of your banker friends made?

Senator **Bellmon**. That is one of the points I was going to raise.

This banker at Perry, Okla., his name is Carl Hamm, raised the point—and the chairman has already discussed it—that this was a very fine potential industry for his community, and he made the loan. And immediately he was criticized by the examiner. And the examiner continued to criticize that loan until this new industry actually had more money on deposit than the amount they owed the bank, which to him was ridiculous. It was obviously a good loan almost from the day it was made. And he suggested—and we have a memo from him, but I don't have it in my hand—that perhaps we should amend the Federal banking law to allow a local bank to make loans of up to 10 percent of their capital structure, for the purpose of community development. And these loans would be exempt from criticism by the bank examiners only up to 10 percent. A bank that has a capital structure of $250,000 could loan up to $25,000, and even though it looked like it might be a questionable loan, this would not be subject to criticism by the bank examiner.

Mr. CARLSON. Are you asking for an opinion from us?

Senator BELLMON. Yes; I wonder what your organization would think.

Mr. CARLSON. I wouldn't object to that. I feel that the supervisory agencies would object to that, because I think they measure not only that particular loan but all the other loans as a percentage of criticized loans, on especially large loans, in relation to the entire capital account. And it may be not only this one that they picked on at that particular time, they may have picked on several, I don't know. I would guess that they would not like it. But as far as I am concerned, on a guarantee program, such as this bill included, they don't usually criticize those loans.

Senator BELLMON. We are not talking about this bill, we are talking about the loans that are already being made. And this banker feels that many bankers are more timid than he is.

I might say that this little company that he helped finance in its early shaky days now has 400 employees, and has annual sales of $15 or $20 million, and provides the real backbone of the economy of that town. If he had refused the loan and the company had folded, or if it had moved to Oklahoma City or Tulsa, this community would probably have lost a third of its population. And he feels that banks in many cases refuse loans they would like to make because they know the next time there is an examination the bank examiner is going to be very critical of these loans. And he feels that the banking structure should be able to absorb up to 10 percent of mistakes, if they actually lose on every one of these loans that it wouldn't weaken his bank noticeably, if he were to lose just 10 percent, and it would encourage local bankers to be a little more aggressive in trying to build up their communities.

Mr. CARLSON. I wouldn't object to that at all. I think the Comptroller looks a little more generously now on loans to help urban and rural areas. I know in our particular town we have acquired some property, and they have not bothered us about that. I think you have a good point.

Mr. PARSCH. Senator Bellmon, could I speak to that subject, because it is very close to me.

I have bank examiners in my bank right now. And yesterday afternoon we discussed a loan of exactly the type you are speaking about, where we financed a small manufacturing business that was in a deficit position. And we took over the loan because we wanted to keep this manufacturing concern in our county, employing about 50 people. We knew the people. And it was a new customer to us. And after I talked to the examiner about it he agreed with me. I used exactly the same arguments. And he said, "I am not going to classify it, because I agree with your philosophy."

Senator **Bellmon.** That is a very enlightened attitude. I am afraid there are not many bankers like that.

I might say that this bank examiner that was critical of the loan said he was doing it for his own protection, that if something went wrong he did not want to be in the position of having failed to call it to their attention.

At the present time the SBA does not make loans for agricultural production purposes. Would you feel it would be an advantage to the areas, the communities you know—before I ask the question, at the present time demand for credit for farm production purposes is going up rapidly, units get larger, and the costs of operations go up? Would you feel that it would be to the advantage of the communities you serve if you could use the SBA to make agricultural production loans? In other words, if that prohibition were removed, so that if you had a local cattle feeder or a local poultryman who needed more money than you could loan through your regular commercial channels, that you could make him an SBA-type loan, would this be a good thing?

Mr. **Carlson.** Could I yield to Mr. Parsch or Mr. Du Bois on that? They both run agricultural banks.

Mr. **Parsch.** My answer very definitely would be, "Yes," I would be very much in favor of this, because now we go to correspondent banks in Detroit or Chicago to handle these loans. And we use SBA on many of our business loans, of course, and we would like to use them on our agricultural loans.

Mr. **Du Bois.** Mr. Chairman and Senator Bellmon, my field is agricultural. And our community is basically supported by agricultural people. And the greatest portion of our loan accounts are agricultural loans. I would disagree—and this is my normal role with this group. I think the SBA has a field of its own. But the bill that you are talking about, S. 2223, goes to the heart of the problems we are talking about, that, plus the FHA program, provides funds in the rural area of agricultural loans. Really what is needed in rural America today to the farm is an insured loan program that can be made by the banks, and then a secondary market, so that once the loans are made and properly insured, and under a good deal of decent supervision, they can be laid off from time to time so that the banks continue to make more loans to provide for the needs of their customers.

You are absolutely right when you say we have a shortage of loanable funds to provide for agricultural needs, because of the larger demand that is going on. And this bill goes in that direction. But we could improve the Farmers Home Administration by having an insured program where the bank could make this under an insurance arrangement similar to the Federal Housing Administration, which has been highly successful in this country, and they provide some form of secondary market. And I believe the insurance factor alone would provide the secondary market.

Senator **Humphrey.** Under the Farmers Home Administration?

Mr. **DuBois**. This is a vehicle that is presently functioning, and functioning well, in my judgment. And it could be expanded.

Senator **Bellmon**. The problem with the Farmers Home Administration up to now is that the Congress has set such low limits that they really can't handle a typical commercial agricultural loan. We have had less than $60,000 on operating loans and a $100,000 limit on real estate loans for the Farmers Home Administration. And these loans aren't large enough.

Mr. **DuBois**. That is right. They are reduced in capacity because of that. But they are also reduced in capacity because of the basic amount of money that they have to operate on every day comes from a budget. And if we had an insured loan program, then we would use the funds that are in the banking system or in other financial institutions to provide the much needed credit.

Senator **Bellmon**. Would it be in order to ask our witness to perhaps give us a memo on how he would like to see this work?

Senator **Humphrey**. Yes; I would like very much to have that. In fact, I have never understood for the life of me why we didn't have in the Farmers Home Administration the same kind of insured loan program that SBA had directed to farm operating loans. The whole problem here in the Congress is, our economics and agriculture are about 20 years out of date. We are just not up to date on what it takes to run a modern farm, where you have lots of cattle or hogs or where you have a big operation, which is required today in order to survive. And I don't think we are ever going to get needed loan funds out of congressional appropriations.

I think your point is well made. These appropriations run up or down like a child's fever. And we have to get into insured loans to be able to tap the commercial market with participating loans. I would appreciate it if your organization will do that.

Mr. **Carlson**. We will do that.

(The memo is as follows:)

IBAA MEMO ON INSURED AGRICULTURE LOANS

The farm capital and credit needs of American agriculture have increased substantially in recent years and projected need indicates further increase.

The major portion of agriculture credit has been supplied by commercial banks, the Farm Credit System and the Farmers Home Administration.

American agriculture needs more credit and it needs it in the form of long term capital loans for farm ownership and farm operation.

The Farmers Home Administration is restricted in its credit granting by loan dollar limitations, congressional appropriations and Bureau of the Budget restrictions. The Farm Credit System has certain built-in reservations and restrictions. Commercial banks are limited because of liquidity requirements and the lack of a secondary market for long term loans.

We propose that Congress establish an insured loan program for farm ownership and operating credit.

We propose an insured loan program patterned after the highly successful Federal Housing Administration Act which provided much needed long-range capital for home ownership in the towns and cities of the nation.

We suggest an amendment to the Farmers Home Administration Act that would provide for FHA insuring agriculture ownership and operating loans, with a portion of the interest charge dedicated to an insurance fund as provided by the Federal Housing Act.

We suggest that the amended act permit commercial banks to participate as the originating grantor of the credit and the servicer of the loan, again patterned after the Federal Housing Act.

We further suggest the necessity of the establishment of a secondary market similar to FNMA which has provided liquidity when needed for the originator of housing credit.

An expanded insured loan program as suggested above will provide much needed long term capital for American agriculture and do so without cost to the American taxpayer.

Senator Bellmon. The reason I bring this point up is that some of the bankers in our State claim that when they take a good loan into a correspondent bank the correspondent may go ahead and participate this year, and by the next year they will deal with the customer directly.

Mr. Parsch. That is not true in my case.

Senator Bellmon. That keeps a lot of bankers from going to the correspondent, and this holds down the farm operation and causes many to go to the production credit or some place.

And sometimes these agencies get overly conservative, and the credit source dries up, it just isn't available.

That is all, Mr. Chairman.

Senator Humphrey. I think you gentlemen should know that Senator Bellmon keeps an eagle eye on this whole farm credit structure to the advantage of the farmers of this country.

Senator Bellmon. The reason is, I am indebted up to my ears.

Senator Humphrey. Join the club.

Before we let you gentlemen leave us, I wish we had a photographer here—I would like to call attention to the publication recently issued by the Independent Bankers Association entitled "Guide to Federal Programs for Rural Development." It is an amazing publication. I would like to ask you, if you would permit us to reprint this publication as a committee print, which would be very helpful to us. We would like very much to take the material that you have divulged here—giving full credit and recognition to the Independent Bankers, and print it as a committee print, which would then make it a type of official document. And it will be, as we say, material gathered by, prepared by, and published by the Independent Bankers Association of America, but it comes out as a committee print of the Senate Committee on Agriculture and Forestry. If you would let us do it we would be very honored. Because we think we could do you some good and, maybe, the country some good.

Mr. Carlson. Permission is certainly granted, Mr. Chairman, without question.

We would like to give Mr. Baker credit on helping us too.

Senator Humphrey. This is a tremendous document. I don't think there is anything like it. I guess it is the only compilation like it.

Mr. DuBois. Mr. Chairman, would it be in the role of this committee, then to update it?

Senator Humphrey. Yes.

Mr. DuBois. A document will not be of much value if it isn't updated.

Senator Humphrey. We will keep it updated, and also in a cooperative relationship provide you, for your own purposes, all the updated material. That is a deal that we will make with you—unless there is a conflict of interest, which I overrule at this moment—with your consent, Senator Bellmon.

Senator Bellmon. I agree.

Mr. Carlson. Thank you.

Senator Humphrey. All right, gentlemen, thank you. And please continue your cooperative work with our staff and with members of the committee.

Our next witness is Mr. John W. Scott.

Mr. Frederick. I am Mr. Frederick in place of Mr. Scott.

Senator Humphrey. Well, we welcome anybody that comes from National Grange.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR, NATIONAL GRANGE

Mr. Frederick. I apologize for Mr. Scott. He was out of town, and he just got back last night. I had told him in advance that I would present our testimony.

I am Robert M. Frederick, legislative director of the National Grange, with headquarters at 1616 H Street NW., Washington, D.C.

Neither I nor the Grange is the expert in farm credit that Senator Bellmon or yourself, or the preceding witness is. However, we have a strong interest, as you know, in rural America, and have had for a good many years. And having had a second opportunity to go over the bill in more detail than we did prior to the writing of the statement, I would think that I could say unequivocally that the National Grange would be in strong support of the legislation, with the refinements needed by any piece of legislation. Like a piano, it needs fine tuning. I think there are some areas, as I have heard in the previous discussion, that could be tuned more properly so that it will do the job that we all want done in rural America.

Senator Humphrey. Thank you very much.

Mr. Frederick. The Grange is a farm and rural-urban family and community organization, with deep roots in rural America. The Grange is composed of more than 650,000 members, representing over 7,000 local communities in 40 States. It has been estimated that at least two local Granges are meeting each night of the week, except Sunday, somewhere in the 40-State area. Therefore, the Grange today continues its 104 years of service to agriculture and rural America.

The Grange appreciates this opportunity to add to the record of its continued expression of concern with the impoverished conditions in which thousands of rural Americans exist. If we have any one interest that stands above all others in our over a century of service to rural America, it is our interest in alleviating the conditions in American life which set those who obtain their economic rewards from the soil, or other residents of rural areas, apart from the rest of our society, both in income and the opportunity to enjoy increasing social benefits.

The National Grange appears before you today, dedicated to a second century of service to rural America, and deeply concerned over the failure of that section of the economy to even keep up with the social benefits available to the Nation as a whole. Residents of rural areas should receive their fair share of the benefits realizable from an increasingly prosperous Nation.

To date, farm families, the backbone of rural development, have not shared in the economic benefits that are derived from an industrialized country. They have not received just compensation for their contribution to the general welfare of the Nation. Farm families, on an average, have only 78 percent of the purchasing power of their city cousins—and I might add that other residents of rural America who are not fortunate enough to be engaged in productive agriculture have even far less purchasing power than that 78 percent—while at the same time their efficiency of production has increased 35 percent since 1947–48.

In the recent meeting called by President Nixon to discuss with farm leaders the provisions of phase II of his program to control inflation, National Grange Master John W. Scott emphasized the productivity of American agriculture. Mr. Scott informed the president:

> The National Grange for years has been informing Congress and the executive that low farm income and the lack of opportunity of farmers to share in the Nation's economic advancement, in relationship to the other segments of the economy, has not been because farmers have not been efficient or productive. Quite the contrary is true—the American farmer's efficiency—his tremendous capacity to produce—his productivity, where now one farmer feeds 48 persons—has almost resulted in his own self-destruction.
>
> The ability of American agriculture to continue to maintain full production, with increased efficiency, has made it possible for less productive and less efficient industries to pay higher wages and sell at higher prices because of the smaller amount of expendable income needed by the consumer to purchase food and fiber.

I bring this to the committee's attention, Mr. Chairman, to emphasize today, as we have in other appearances before this and other congressional committees, that the very heart and lifeblood of a prosperous rural America is a strong, healthy, independently managed family farm structure. In our haste to improve conditions in rural areas, let's not lose sight of the fact that agriculture is, and should remain, the cornerstone upon which to build stronger rural communities.

I realize that I need not remind members of this subcommittee of the importance of continuing and strengthening farm programs. The committees on agriculture have worked long and diligently on programs to improve the economic position of the American farmer, but much remains to be done if we are to have a balanced economy in rural areas.

In our appearance before this subcommittee on June 16, we discussed the need for a national growth policy. We pointed out at that time that, in our judgment, rural development should play a dominant role in any national growth policy. We would like to reaffirm that position today.

It is abundantly clear that unemployment and underemployment in rural and nonmetro areas has caused and, unless corrected, will continue to cause, major problems for metro areas. The facts make it clear that the income levels of farm and nonfarm families in rural and nonmetro areas must be increased if America is to continue to grow. The neglect of their problems surely will bring the major metro areas tumbling down upon the greatest country mankind has ever known.

The hearings held earlier by this subcommittee were well documented with facts and figures to emphasize the problems that are facing rural areas; therefore, we feel that it is not necessary to review them in order to prove or substantiate the need for additional legislative authority.

It is because of our firm conviction that the answers to tomorrow's urban problems can be found in a healthy, strong economic rural

America that we support legislation to provide for the establishment of new or expanded job-producing industrial and commercial establishments in rural areas. In fact, it is because of our neglect of the problems of rural America that our urban centers are in such a state of poverty, confusion, and overcrowded conditions.

We have cautioned against rural development programs that fail to recognize the importance of the contribution that can be made toward the economic stability of rural America by family agriculture. However, we also realize, and would like to emphasize, that there are many problems of rural and nonmetro residents that present programs have not only failed to solve but were not directed to solve.

The legislation before this subcommittee today addresses itself to these problems. The type and form of legislation reported by this subcommittee and, hopefully, passed by Congress is of great importance if we are to, at long last, address ourselves to the entire problem of the rural economy.

It is obvious that the Government cannot dictate to private industry where it should locate its plants, nor can it dictate the whole policy of the allocation of resources and economic development. However, it can compensate for those factors not available in the areas where it feels there should be some additional industrial or agricultural development and assume some of the risks inherent in this kind of operation. Such planning could and should obviously take into consideration the social factors involved, as well as the possibility of the simple making of a profit by a private entrepreneur.

We have been concerned that programs designed to alleviate some of these problems have not functioned in the rural areas as we had hoped. Congress made provisions for rural water and sewer systems on paper, through the passage of legislation, without adequately funding the programs. The necessity of upgrading our rural electric and telephone systems has always been and still remains, a constant battle in Congress. In addition, we have seen the Office of Management and Budget withhold appropriations of the Congress for services which are badly needed in the rural areas.

Even with what has been planned and accomplished, we appear to be attacking the symptoms of the problem instead of attacking the problem at its roots. We feel that the legislation before this subcommittee is addressing the roots of the problem as we see them in rural America. We need greatly expanded manpower training programs for rural areas and, mostly, the abandonment of the laissez-faire system for allocation of the human and financial resources on the basis of efficiency only.

It is the stated intention of Senator Talmadge and you, Mr. Chairman, as well as other sponsors of S. 2223, to limit the present activities of the Farmers Home Administration and the Farm Credit Administration to furnishing credit to farmers. Likewise S. 2223 would consolidate some functions of FHA and other Government agencies that depend upon annual appropriations to carry on their development programs in rural America, by setting up a similar credit structure for nonfarm rural borrowers under title II of a new "Rural Development Financial Resources Act." In our judgment, this should avoid the problem that we have had in the past of having good legislation passed only to discover that the programs were either inadequately financed or the appropriated moneys were withheld.

However, title I of the bill, in amending the Consolidated Farmers Home Administration Act of 1961, under a new title of "Consolidated Farm and Rural Development Act," actually enlarges the powers of the Secretary of Agriculture in this field, so that there is a considerable overlap of powers in the FHA provisions as amended by title I and the new title II.

In most cases this overlapping of powers could lead to administrative difficulties. However, in this case, this should occasion no real problems in operations, since S. 2223 reorganizes the Department of Agriculture to provide brother agencies, the Farm Development Administration and the Rural Enterprise and Community Development Administration, under a new Assistant Secretary of Agriculture. Conflicts should be avoidable under any duplication of powers or alternative courses of action may, in fact, be of value in some future situations. The use of moneys in the existing Farm Credit System—and here we are referring not to the Farm Credit Administration but to the other credit agency within FHA—as a supplementary source of financing for some future rural project may be of considerable benefit in achieving the overall purpose of developing rural America.

The Grange has some apprehension about setting up an entirely new administrative authority for rural development, although we must admit that, in doing so, we would avoid the problems we have had in the past of inadequate financing of rural development programs. We would hope that this could be accomplished by amending present statutes to provide them the authorities necessary to carry out the purposes of the pending legislation, and here we have to rely upon the expertise of the staff and Mr. Baker, and yourself, Mr. Chairman, and Senator Bellmon and other members of the full Senate Agriculture Committee to make the determination of whether it can be done that way. We have reservations at this time as to whether it can or cannot. In other words, expand and increase the lending and borrowing authority of the present Farmers Home Administration.

Mr. Chairman, the legislation cosponsored by you and other Members of the Senate is a very comprehensive and complicated bill. While we support it in principle, we do hope that the objectives can be accomplished by other means. Amendment No. 153 by Senator Pearson, to S. 1483, has distinct possibilities and we would urge that a great deal of study be given to the several proposals now pending before the subcommittee. As I mentioned earlier, as we study it longer, we are inclined to believe that it does provide the answers to the problems we have seen in rural America for many years.

I might add that one of the reasons we have hesitated in giving it any firm or strong support at this time is that the National Grange policy is made by a delegate body at our annual session.

Senator HUMPHREY. Yes, we understand that.

Mr. FREDERICK. And we have not had an opportunity to meet with our agriculture committee and with the delegates on this approach to rural development. Our next meeting is in November of this year. I would hope that the bill is passed by then, but, if it is not, we would like to have perhaps a staff man attend our annual session and meet with our agriculture committee and fully explain the bill. Then he could answer any questions we had and I would expect that we would come out in support of the bill.

Senator HUMPHREY. Thank you, sir.

Mr. FREDERICK. The National Grange is in support of legislation to establish a "Rural Development Bank" to help rebuild rural America. The rural areas of our Nation have been neglected far too long and legislation is long overdue. However, we respectfully urge the subcommittee and the Senate to move with caution before enacting legislation that will be difficult to administer and which would lead to further frustration of an already difficult problem.

In conclusion, Mr. Chairman, as the problems of rural communities become more pressing, rural development will be increasingly in the news, for it offers the promise of infusing new economic life into these areas. However, rural development does not take place on its own, nor does having adequate funds available insure its success. If it is to succeed, farmers, nonfarm rural residents, and other community leaders must take the initiative in encouraging the community to study its problems and preserve in seeing that the conclusions based on these findings are carried through to a logical end.

To my knowledge, every successful attempt at rural development has been because people became involved in problem solving. I think the Senator's example of what happened in Perry, Okla., is an excellent example of knowledge of local conditions and problem solving thruogh involvement of people. They have got to get off their apathy and become concerned and go to work to make their community programs work. Communities in Pennsylvania, Iowa, North Carolina, Nebraska, and North Dakota, to mention only a few, have successful rural development programs—all because people cared about what was happening to their towns.

Despite Government activity and creation of a development bank, success really depends, as we have seen, on what is done within each community. The national planning of overall programs and adequate funds for development can be supplied, but the programs must be executed through State and local committees, with the initiative and decisionmaking in local hands.

Leadership, initiative, ingenuity, judgment, and application are potent forces in community growth and development. Rural development cannot be spoon fed—governments, Federal, State, and local, can supply the overall plan, but implementation must come from within the community, and may I digress to say that I think this is an important aspect of this legislation, and it does involve local banks and our good friends from the Independent Bankers Association. I am glad to hear their support in working with the committee to develop that kind of legislation.

Senator HUMPHREY. As you know, we also concentrate on developing a multiplanning and multicounty agency. So the whole structure is related to local initiative, local planning, and local community action. And then the funding is by the bank.

Mr. FREDERICK. I notice in Senator Talmadge's remarks when he introduced the bill you referred to the local tricounty development in his own state. And I think it is very essential.

Senator HUMPHREY. Yes, indeed.

Mr. FREDERICK. In fact, programs devised by men, that supply only moneys and plans, will breed apathy, lack of interest, and "I don't care" attitudes on the part of the recipients.

Since action within the community is vital for successful rural development, it is obvious that leadership and active participation must also come from within the community. Enlightened self-interest is at the base of community development—be it rural or urban.

In rural development, results flow from a combination of effective application of effort and available resources. Communities will not achieve their potential merely because resources are there. Little can be expected where there are no resources; but well-conceived, concerted effort, intelligently applied, can produce worthwhile results even when resources are limited.

Mr. Chairman, although we have not been too specific in our recommendations, we do feel that the type of financing set forth in the pending legislation will avoid the many pitfalls of the past and can bring together the necessary financing, planning and private investment to make rural development work to the benefit of all America.

Thank you, Senator Humphrey, for permitting the National Grange to appear before this distinguished subcommittee. You and Senator Talmadge are to be commended upon this new approach to solving the problems of rural areas. We have faith in the wisdom and judgment of this subcommittee and know that legislation will be forthcoming that will have the support of the National Grange. We wish you well in this undertaking and pledge our support of programs that address themselves to the total problem of rural-urban imbalance. We believe you are on track—today they say "right on"—Mr. Chairman.

Senator HUMPHREY. Thank you very much for your testimony.

Just one point I would like to raise with you, and then I want to have Senator Bellmon question you.

We have had the Extension Service people in. They gave us some very good testimony. And we had a suggestion made by the chancellor of the University of Nebraska, to the effect that the land-grant college, through the Extension Service, would operate rural development institutes that would give a push to the whole concept of rural development and to coordinate the many facets of the rural development program without actually being the action agency, these institutes would provide the framework in which there could be dialog, discussion, the organization and the planning that would make for a better program of rural development. We would like very much to have you look at that testimony. I am going to have a copy of the testimony sent over to the Grange. I would appreciate your views on it. And I think in fact we should ask those witnesses that come before us from farm organizations to give us their views on that particular testimony. You maybe haven't seen it thus far, and it would be too much to ask you to make a valuable judgment at this moment.

Mr. FREDERICK. I haven't seen it.

Senator HUMPHREY. But I just call it to your attention, and if you will give us a little memo one way or the other, I will ask the staff to get whatever testimony we have had both in the field and before the committee here in Washington—our key witnesses, the Independent Bankers, the Grange, the Farmers Union, whatever groups testify, the NFO and others—and get their views on it.

I believe that would be a good idea, don't you think, Senator Bellmon?

Senator Bellmon. An excellent one.

Senator Humphrey. Any questions, Senator Bellmon?

Senator Bellmon. Mr. Frederick, on page 4 you say: "It is obvious that Government cannot dictate to private industry where it should locate its plants." The point I would like to make is that it seems to me that by neglecting to provide the necessary credit, and in some cases other support services, that the Government is dictating to industry that it locate its plants always in the big cities.

Mr. Frederick. Indirectly I would agree with you, sir.

Senator Bellmon. And I think this is where a problem arises. There are many companies, I think, that might prefer to locate in a less congested area if there was any way of getting the capital and the support that they need. But up to now, it hasn't been possible for a small community to compete.

Mr. Frederick. I would agree. Indirectly, perhaps, they were directing where it should be located. But I think there has to be some caution—depending a great deal on responsive planning for industrialization in the rural areas. If it is a mere shifting of an industrial plant in an urban area to a rural area, I don't know that this is the type of rural development, industrial rural development, that we want because it would just be a translocation of a resource from a city to the country. I think we have to develop new ones. I know that this is the intent of the legislation, and I think that this is what we want to do. I don't see any benefit in taking a plant out of Buffalo, N.Y., and putting it out in rural New York.

Senator Bellmon. Don't you think it would be a benefit to New York City if they could have perhaps a third of their population located somewhere else?

Mr. Frederick. Perhaps New York City it would.

Mr. Bellmon. Perhaps Washington.

Mr. Frederick. In large cities I would have to agree. But then this would have an effect on the people who had been working in the plant, if the plant moves from Washington or New York to somewhere else. This would have to be a well-planned and well-thought-out operation. I think the national growth policy is really referred to in our testimony. So you would have even more people on the welfare rolls in New York and Washington if you moved the plant out. If you relocate people you haven't helped the unemployment situation in the rural areas.

Senator Bellmon. The reason a lot of the people are in New York and Washington now is because there wasn't any way to make a living in the rural areas where they once worked on the farm. And it seems to me that had the Government been alert at the time we had this mass outmigration from the rural areas, and had to provide incentives or opportunity for jobs to be created in those areas, that we wouldn't have the congestion we have now in the cities, and we wouldn't have the heavy welfare burden caused by people who just don't have marketable skills that they can sell in the cities.

Mr. Frederick. I couldn't agree more, and it is unfortunate that we didn't have this type of program in effect 15 or 25 years ago when the first migration really started.

Senator Bellmon. What we are suggesting, I think, in our work here is that peope ought to have a choice, if they prefer to live in the rural areas, they should have a way to make a living there. And if they prefer the city, that is fine. But up to the present time they haven't had that choice.

Mr. **Frederick**. They have had very little choice.

Senator **Bellmon**. Thank you, Mr. Chairman.

Senator **Humphrey**. Thank you very much. We will be in touch with you. We appreciate your coming before us.

Our next witness is Dr. Weldon Barton, assistant director of the legislative services of the National Farmers Union.

Welcome. Please be seated.

STATEMENT OF DR. WELDON V. BARTON, ASSISTANT DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. **Barton**. Before I begin, Mr. Chairman, I would like to acknowledge the presence in the room of Mr. Lewis Johnson, the president of the Arkansas Farmers Union.

Senator **Humphrey**. Let him come right up. I like to see those Arkansans.

Mr. **Barton**. He is testifying tomorrow before the committee.

Senator **Humphrey**. I will be here to hear him. I saw him walk through the door. Every time I see him come through the door I feel a little stronger, healthier, and better.

Mr. **Barton**. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the committee, I am Weldon Barton, assistant director of the legislative services of the National Farmers Union.

I have a prepared statement that I would like to request be published in the record in full. I would prefer this morning to simply summarize and hit some of the high points of that statement, if I might do this.

Senator **Humphrey**. It is so agreed. We will have the statement published in its entirety in the record as if read. And you may proceed to comment.

Mr. **Barton**. Mr. Chairman, the delegates to the National Farmers Union National Convention, which met here February 24 through 27 of this year, adopted a statement of policy in support of rural development and especially in support of a rural development credit bank. I will not read it, since it is in the beginning of my prepared statement. Let me say that the policy statement adopted by our delegates was somewhat narrower and didn't have the broad scope of the present legislation. However, Mr. Chairman, I think it was the clear intention of our delegates meeting in convention to support a fully workable and comprehensive financial system for rural development. Consequently, I think in general we would fully support title 1 and title 2 of S. 2223. There will of course be a need for some tinkering with details and tidying up of the bill in this regard.

I would like to comment very briefly, then, Mr. Chairman, on title 1 and title 2 of the bill.

Title 1 proposes what might be called an incremental approach to expanding rural development financing. That is, it starts out from where we are, with the Farmers Home Administration, and it reorganizes the Farmers Home Administration and expands the functons of the Farmers Home Administration into new and advanced areas of financing for rural development.

An important addition to the Farmers Home we think is to make loans to attract new industries into rural areas. As I said, Farmers Union supports title 1. We fully agree with the idea of strengthening the Department of Agriculture as the agency through which farm and rural development programs are to be spearheaded and administered. We think that the Department of Agriculture is the Agency that is best equipped to handle rural development programs in conjunction with farm programs, and we support title 1 in part on this basis. We think that title 1 is a realistic and workable alternative to the rural community development revenue sharing plan and the departmental reorganization proposals made by the President earlier this year.

We also support enactment of legislation patterned after title 2 of S. 2223. This of course is a much more comprehensive system of rural development financing, and for that reason is likely to be somewhat more controversial than title 1. However, we are glad to see that you have come up with some legislation that you might say "goes for broke" in getting the kind of large-scale and comprehensive program that we need to tackle the problem of rural development. After all, rural development in its broader ramifications is not likely to be successful if it is undertaken on a completely piecemeal basis, or on a halfhearted basis, or in a financially-starved manner. Title 2 we think provides a reasonable mix of administrative structure of hard loans and of cash grant which, if enacted, would set the stage for truly meaningful rural revitalization.

Mr. Chairman, I am not prepared this morning to go through the bill on a section by section basis and comment upon it. We may have specific additional comments on specific sections later. I would like to turn for just a moment to my statement, the last two pages of the statement, and comment upon the 35,000 population cutoff.

Senator HUMPHREY. Could I just say at this point that we would appreciate having you look over the bill section by section. You might want to talk to our staff about it and give us a memoranda, giving us your analysis that you might wish to add to your testimony. We will keep this record open for a period of time, so there will be plenty of time for you to do so. I know that this is a complicated piece of legislation. But your organization, along with others, has a big stake in it. And we think that if you and any of your associates would find the time to work with some of our people here, we might come up with added improvements. So you feel free to do that.

Mr. BARTON. We will certainly do that, Mr. Chairman.

And let me say that I have studied the bill in detail. If you want to ask questions about specific provisions, I will be prepared to answer questions on it. And we will respond to your request for further comment on the details of the bill.

Earlier this year, in our testimony on the farm credit legislation before another subcommittee of the Senate Agriculture Committee, Farmers Union recommended that rural housing loans of the Farm Credit System be limited to owners of housing located in open country and in places of less than 2,500 inhabitants. Our intention was generally to encourage the FCS against the financing of housing in the suburbs and in larger urban places, and to emphasize housing assistance in open rural areas and in small towns.

We view this question somewhat differently in regard to S. 2223. We recognize that effective rural development may need to be focused upon larger communities and towns that offer potential for further growth and development.

However, we think that there needs to be a careful distinction in this legislation between promotion of new towns that are essentially satellites of larger metropolitan areas, on the one hand, and revitalization of communities that serve, and are served by a surrounding area, on the other. While it may be highly desirable—and of course it is a matter of public policy now in a title of the Housing Act of 1970—to develop new communities or satellite cities on the periphery of our ubran centers, this is at best what might be called a "trickle out" approach to rural development.

We do not object to the 35,000 population cutoff regarding the size of communities eligible for grants and loans under S. 2223. However, we would suggest that the committee might want to consider the following amendment, or an amendment patented to some extent after this suggestion, for the definition of a rural area on pages 4 and 11–12 of the bill:

> A rural area shall not include any area in any city or town which has a population in excess of 35,000 inhabitants, is located within an urbanized area, or is less than (blank) miles from the boundary of any urbanized area.

Senator HUMPHREY. Getting away, in other words, from the suburbs concept here?

Mr. BARTON. Exactly.

Senator HUMPHREY. The bill is not sufficiently clear on that, I agree with you. I have had some comment from others about it. We are not trying to finance suburbs, because the Housing and Urban Development Department and HEW and other agencies do that. This should be related to communities like Senator Bellmon and myself have in our respective States. I am thinking about a community like Worthington, Minn., where I was Saturday, or Delano, or Buffalo, Minn. These are little towns, and some of them run 10,000, 12,000, 15,000, and 35,000. That is really what we are getting at, rather than talking about Bloomington, Minn., which has 50,000 and is a suburb of Minneapolis. So we will strengthen that language.

And if we are privileged to report a bill, we will make it very clear in our report or legislative intent what we are talking about.

And also on the matter of new towns, I think that point is well raised here. We have legislation for new towns. The purpose of this bill is not basically to finance new towns. It is to rehabilitate and revitalize existing structures and existing communities.

Mr. BARTON. This is certainly what we are trying to emphasize, Mr. Chairman. We recognize the difficulty in structuring language that would get at this more directly than getting the intention into the record. I have worked with the Census Bureau on this, and the concept of an urbanized area as defined by the Census Bureau does have strict boundaries. So from the edge of an urbanized area to the beginning of a community qualifying for assistance under S. 2223, you could have a specific area. It wouldn't be accurate to call this area a buffer zone, but it would be an area around each of the cities or towns that would be eligible for loans, so that you would have in each case at least a certain amount of miles of rural area around those towns receiving grants or loans under S. 2223 that would draw upon those towns, and the towns would in turn draw upon the rural area. So in such instances you would have real rural development in terms of supporting these communities.

Now, Mr. Chairman, I will proceed to the final paragraph of my prepared statement.

Amendment 153, authored by Senator Pearson, is in our opinion basically an alternative to title II of S. 2223. We think that the financing system in title II is preferable to amendment 153—for two reasons:

First, rural development of the comprehensive scope proposed in these bills should not be restricted to poverty areas. Rural development is a broader and somewhat different problem than alleviation of rural poverty, and developmental assistance should emphasize but not be restricted to poverty areas.

Second, in our view title II offers a more balanced and complete treatment of the various problems of rural development than does amendment 153.

Consequently, we support title II of S. 2223 over amendment 153, since in our view title II is a better approach.

Thank you.

(The prepared statement of Mr. Barton follows:)

Mr. BARTON. Mr. Chairman, members of the committee:

I am Weldon V. Barton, assistant director of legislative services of the National Farmers Union. I welcome the opportunity to testify before this committee today on S. 2223.

The delegates to National Farmers Union's 1971 Convention adopted a policy statement calling for the strengthening of financing institutions for rural development:

> We urge the Congress to create a new, federally chartered Rural Development Credit Bank to provide increased capital financing for a wide range of rural development programs. The bank should be independent of the Farm Credit System and other existing farm and rural credit institutions. It should be started with "seed money" appropriated by the Federal Government—perhaps $1 billion—and should operate as a public-private corporation. The bank would make loans for rural housing, water and sewer systems, water resource projects, recreational facilities, and other activities for the renewal of rural areas of the nation.
>
> The Rural Development Credit Bank should be supplementary to—and in no way competitive with—existing farm credit lending programs.

S. 2223 would go considerably beyond the "Rural Development Credit Bank" as outlined in this Farmers Union policy statement. The bill proposes two complementary ways of promoting rural development financing—spelled out in titles I and II respectively.

Title I, the "Consolidated Farm and Rural Development Act," might be described as an incremental approach to expanded rural development financing. It would reorganize the Farmers Home Administration and strengthen FHA loan and grant programs to farmers and for a wide range of other rural development purposes.

Farmers Union supports enactment of title I. We support this title with the expectation that not only industrial but also agricultural loan programs of FHA will be expanded. We cannot and must not avoid the fact that farming is the No. 1 business in rural America, and farming is the major activity that generates the income of bankers, grocers, automobile, and farm implement dealers, and others in rural communities and small towns.

In this sense, farming is the foundation on which any sustainable rural development efforts must be built. It is especially important to expand the loan programs of the Farmers Home Administration, since these loans go to small farmers who are struggling to place their operations on a sound economic basis. An FHA loan at the right time can be the decisive factor on whether or not a farmer in this category will be able to stay in farming and in rural America.

We support title I because, in our view, it would strengthen the U.S. Department of Agriculture and the Department's potential for carrying out effective farm and rural development programs. In this sense, S. 2223 is a preferable alternative to the rural community development revenue sharing bill and the departmental reorganization proposals advocated by the Nixon administration—both of which would tend to weaken the nationwide farm and rural development programs administered by the Department of Agriculture.

Title I of S. 2223, by coordinating agricultural and rural development loans under a single Assistant Secretary of Agriculture-Rural Development Credit, is clearly preferable to the scattering of farm and rural development programs under separate departments and levels of Government. Integration of these programs within the USDA will facilitate close cooperation between farm and other rural programs, and encourage a working relationship between rural development loan programs and other agencies in the Department—Extension Service, Farmers Cooperative Service, etc.—that are also involved in rural development activities.

Title II, the Rural Development Financial Resources Act, would create a new banking system for development of rural areas patterned after the Farm Credit System, complete with a network of field offices and regional banks. This system would be essentially separate from the Farm Credit System and the Farmers Home Administration of the Department of Agriculture, and could complement the FCS and and FHA by making mostly nonfarm rural development loans.

Farmers Union supports the enactment of title II. We think that it is a good idea to push for this kind of comprehensive attack—with grants as well as loans—upon the problem of rural revitalization.

We support title II in the understanding that the Rural Development Credit System will draw money and credit from the general monetary sources of the Nation, and will not be directly competitive with existing farm credit programs. In light of the increasing strain on agricultural credit sources, we must be careful not to overextend the present scarce sources of farm credit by trying to make agricultural credit sources fulfill the entire credit needs for rural development.

Title II, we think can avoid such an unfair burden on farm credit, and at the same time give a major impetus to the long overdue movement to develop and renew the rural areas and countryside communities of our Nation.

Mr. Chairman, we have not chosen to present a detailed, section-by-section examination of S. 2223 to you and your subcommittee today. At this time, I want to discuss only one specific provision of the bill—the definition of a "rural area" as a city or town not in excess of 35,000 inhabitants. We may want to comment on other specific provisions at a subsequent time.

Earlier this year, in our testimony on the farm credit legislation before another subcommittee of the Senate Agriculture Committee, Farmers Union recommended that rural housing loans of the Farm Credit System be limited to owners of housing located in open country and in places of less than 2,500 inhabitants. Our intention was generally to encourage the FCS against the financing of housing in the suburbs and in larger urban places, and to emphasize housing assistance in open rural areas and in small towns.

We view this question somewhat differently in regard to S. 2223. We recognize that effective rural development may need to be focused upon larger communities and towns that offer potential for further growth and development.

However, we think that there needs to be a careful distinction in this legislation between promotion of new towns that are essentially satellites of larger metropolitan areas, on the one hand, and revitalization of communities that serve, and are served by a surrounding rural area, on the other. While it may be highly desirable to develop new communities or satellite cities on the periphery of our urban centers, this is at best what might be called a "trickle out" approach to rural development.

We do not object to the 35,000-population cutoff regarding the size of communities eligible for grants and loans under S. 2223. We would like to see a clear legislative directive to the effect that, insofar as consistent with the objective of promoting viable towns that show potential for further development, the emphasis be placed on smaller places.

Specifically, we suggest the following wording for the definition of a "rural area" on pages 4 and 11–12 of the bill:

> A rural area shall not include any area in any city or town which has a population in excess of 35,000 inhabitants, is located within an urbanized area, or is less than — miles from the boundary of any urbanized area.

Amendment 153, authored by Senator Pearson is, in our view, basically an alternative to title II of S. 2223. We think that the financing system in title II is preferable to amendment 153—for two reasons: (1) Rural development of the comprehensive scope proposed in these bills should not be restricted to poverty areas. Rural development is a broader and somewhat different problem than alleviation of rural poverty, and developmental assistance should emphasize but not be restricted to poverty areas. (2) Title II, in our view, offers a more balanced and complete treatment of the various problems of rural development than does amendment 153.

Senator HUMPHREY. It has been my judgment, that when we direct so much of our legislative intent these days to what we call the poverty areas, we forget that other areas can soon become poverty areas unless they have a chance to grow and develop. And the best answer, of course, to poverty is not a direct approach per se to poverty, but a direct approach to the development and the investment in the growth of the community that absorbs people so that they can get out of their poverty syndrome that is so often evident. And that is the purpose of title II. The title II purpose is what I call preventive medicine, and also curative in the sense that as you develop, jobs open up, the economy improves, the social services improve, but you basically attack the root causes that bring about poverty.

Mr. BARTON. We certainly agree with that, Senator. We think that it is a positive approach that, as you say, tries to get ahead of the problems.

One thing that we like about title II of S. 2223 as written is that it does go beyond what we have talked about for years—the idea of rural-urban balance in the sense that the rural areas should be allocated their "fair share" of Federal moneys in terms of the total pie. This is a concept that we certainly supported in the past. But this legislation gets on a more positive note and says, let's get together with urban people, and let's develop the rural areas of this country so that they wil serve both rural and urban areas. In this sense, also, it goes beyond the poverty and the rural-urban balance approaches, and takes a positive attack.

Senator BELLMON. Mr. Chairman, Mr. Barton has made a fine statement, and I appreciate it. I have no questions.

Senator HUMPHREY. I want to thank you very, very much. I appreciate your coming before the committee. And again, we do want you to have a continuing interest in the proposals and get back to us with whatever you can.

Mr. BARTON. Thank you very much, Mr. Chairman.

Senator HUMPHREY. As our next witness we have Mr. John T. Parran, Jr., chairman, Tri-County Council for Southern Maryland, Waldorf, Md., also representing the National Service to Regional Councils.

And we do welcome you, sir. Will you explain to us your work, particularly with the regional councils and the Tri-City Council for Southern Maryland.

STATEMENT OF JOHN T. PARRAN, JR., CHAIRMAN, TRICOUNTY COUNCIL FOR SOUTHERN MARYLAND, WALDORF, MD., ALSO REPRESENTING THE NATIONAL SERVICE TO REGIONAL COUNCILS

Mr. PARRAN. Yes, Mr. Chairman.

I might say you are really hearing from a rural area now. I live some 30 miles south of Washington, D.C., in a place called Charles County.

Just as a matter of personal interest, you don't know it, but I was your campaign manager in Charles County, and we are still rooting for you.

Senator HUMPHREY. I want to say right now, Senator Bellmon, I think this man is an outstanding witness before he testified.

Go right ahead, sir.

Mr. PARRAN. Mr. Chairman, I am today representing the National Service to Regional Councils. They have a board meeting today and were unable to be here. And frankly, a regional council is that organization which helps local governments to solve intergovernmental problems.

In Maryland we have started to form regional councils, and I am the chairman of what we call the Tri-County Council for Southern Maryland, which is three small southern Maryland counties right outside the Washington, D.C. area.

I have a prepared statement, sir. I am not going to read it.

I have served in the Maryland Legislature before, and I know that your committee work and time is valuable. I would like to make my statement a part of the record, if possible.

Senator HUMPHREY. Do we have extra copies of your statement here?

Mr. PARRAN. They are making some for me.

Senator HUMPHREY. We will put the statement in its entirety in the record, and you feel free to comment.

Mr. PARRAN. Yes, sir. I will just summarize it very briefly.

Speaking on behalf of the National Service to Regional Councils, the most important aspect of these bills to the national service is that they encourage a regional approach to rural community development, and we feel that this is a valid approach, and fully endorse and support it.

The meager resources available to local governments in rural America have made it difficult for them to maintain and enhance the living environments in those areas. Likewise opportunities for employment are also declining. To a large extent the shortage of investment capital to attract industrial and commercial development is the basis for this decline. The very shortage of financial resources in itself is a justification for requiring a regional approach to rural development.

As we have already indicated, the State and local governments in rural areas have been exercising great initiative in developing regional mechanisms for the solution of their problems.

We approve of this regional approach, and we feel that it will work.

And in summary, as far as the bills themselves are concerned, I would like to give you the idea that the National Service to Regional Councils has.

Senator HUMPHREY. When you say the National Service to Regional Councils, explain that to me, will you?

Mr. PARRAN. This is an organization with its headquarters here in Washington and helps regional councils all over America. For instance, the small regional council that we have in southern Maryland, three counties——

Senator HUMPHREY. In other words, these multicounty groups?

Mr. PARRAN. That is right, yes, sir. And this National Service to Regional Councils is an institution that feeds them information and keeps them up to date on what is happening in Congress, and helps them function, and is a very helpful tool for the regional councils all over the country.

Senator HUMPHREY. Thank you.

Mr. PARRAN. Here is what their attitude on these bills is. No. 1, S. 2223 permits areawide planning and developing agencies to receive loans, make loans, to become stockholders, and to serve as local agents for rural development banks. We prefer this approach to S. 1483, which simply makes such agencies eligible to obtain loans, but not to carry out any other functions.

Point No. 2, S. 2223 provides the financial agencies of areawide planning and development districts may become owners of banks under certain circumstances. We feel this is an important aspect of the legislation, and prefer it to the lack of any such authorization in S. 1483.

Point No. 3, we prefer the definition of rural region contained in S. 2223 to that in S. 1483. Moreover, S. 2223 contains the authorization to broaden the definition when special circumstances may justify such expansion. We believe this type of flexibility should be encouraged.

In closing, I appreciate the chance to be before your committee. We again endorse this regional approach, and certainly hope you have success with the bill.

Thank you.

(The prepared statement of Mr. Parran follows:)

Mr. PARRAN. Mr. Chairman, I am very pleased to be here today on behalf of the National Service to Regional Councils. I have been asked to represent the National Service during these rural development hearings, since a board meeting prevents a member of the NSRC board from attending. For the record, I have had the pleasure of serving as the chairman of the Tri-County Council for Southern Maryland since 1968.

Let me begin with some introductory comments about our organization which will serve to make clear our point of view. The National Service to Regional Councils was initiated in 1967 to assist the rapidly growing number of regional councils in setting up and improving their programs and activities.

Regional councils, simply summarized, are areawide organizations which involve more than one local government and encompass a total regional community. Regional councils exist both in densely populated metropolitan areas and in sparsely populated rural areas. Their prime purpose is to increase communications, cooperation, and coordination among local governments, to review certain Federal grant applications, and to develop policies and programs to meet mutual problems and challenges. The term regional council encompasses several different types of organizational structures, the three most prominent being councils of governments, economic or local development districts, and regional planning commissions. Close to 600 such regional councils have been established to deal with areawide problems. The governing bodies of these councils are composed primarily of local government elected officials or their representatives.

Many regional councils serve as the basic coordinative device for Federal funding of local government activities. This function is performed as a result of the "review and comment" provisions of section 204 of the Demonstration Cities and Metropolitan Development Act of 1966. This provision was subsequently expanded by the Intergovernmental Cooperation Act of 1968 and implemented through Circular A-95 of the Office of Management and Budget. Regional councils designated as A-95 agencies review Federal-aid applications of local governments prior to submission to the Federal funding agencies. The councils review the applications to assure their consistency with the regional adopted plans and priorities. For the committee's information, I am attaching a recent National Service publication with more detailed material on what regional councils are doing, and a roster of the National Service board.

NATIONAL POLICY

Of the nearly 300 regional councils who are members of the National Service, more than one-half have been organized in nonmetropolitan rural regions throughout the United States. And additional rural regional agencies are being established every day. As in the case of our metropolitan areas, local governments in rural America have recognized the benefit which can be derived from pooling their resources to solve their intergovernmental problems and enhancing their orderly growth and development. In short, Mr. Chairman, the National Service has an immediate and direct interest in the legislation now pending before your committee, especially S. 1483 and S. 2223. Both of these bills would provide financial support to our rural areas for the purpose of making these areas vital forces in our economy.

Before I make any specific comments on the proposed bills before the committee, I would like to recall briefly some of the testimony that the National Service was privileged to present to you several months ago during your general hearings on rural development. We emphasized one interest above all. We urged the development of a coherent and rational national balanced growth policy, which encompasses rural and urban America. To a large extent, the various proposals pending before you on rural development reflect that need and mandate that such a policy be developed. It follows your lead in recognizing the need for a balanced developmental policy as reflected in the Agriculture Act of 1970. We cannot overemphasize the importance of the aspect of rural development, but it is not solely a rural issue. We need a balanced development policy if we are to manage and solve many of our urban and metropolitan problems. This legislation, therefore, transcends rural interests. It is national in character and for that reason we not only hope to indicate our feelings representing rural regional agencies of local government, but also our members who come from the metropolitan areas of the United States.

RURAL DEVELOPMENT

The proposed Rural Community Development Bank, S. 1483, and the Consolidated Farm and Rural Development Act, S. 2223, have the same general purpose. While these bills have different approaches, they both would provide venture and mortgage capital required to adequately finance rural development. In the case of S. 2223, this would be accomplished through an investment and credit system that would combine and expand existing operations of the Farm Credit Administration and the Farmers' Home Administration. The bill would apply mainly to rural areas of under 35,000 population which are not contiguous to large municipalities or metropolitan areas.

S. 1483 goes in the same direction but uses a different structural approach to creating the mechanisms for the extension of such credit in rural areas. It also defines the eligible rural areas differently, by providing that the credit could be made available for nonfarm rural development in SMSA's and metropolitan planning regions, as long as 15 percent or more of the families living in the area were below the poverty level.

The bills would extend credit for necessary public facilities, such as libraries, health clinics and water pollution control facilities. Appropriate private developments could also be financed through this credit system. For example, industrial parks, communication facilities, and other commercial activities which would engender employment and promote orderly development would also receive assistance. Probably the most attractive feature of these proposals in the view of the taxpayer is that they will require minimal Federal expenditures. The bulk of the money contemplated under these bills will come from private capital and investment. The legislation would guarantee such investments and assist in providing direct links between central money markets and rural credit needs.

The most important aspect of these bills to the National Service is that they encourage a regional approach to rural community development. We feel this is a valid approach and fully endorse and support it. The meager resources available to local governments in rural America have made it difficult for them to maintain and enhance the living environments in those areas. Likewise, opportunities for employment have also declined. To a large extent, the shortage of investment capital to attract industrial and commercial development is the basis for this decline. The very shortage of financial resources in itself is a justification for requiring a regional approach to rural development. As we have already indicated, States and local governments in rural areas have been exercising greater initiative in developing regional mechanisms for the solution of their problems.

REGIONAL APPROACH

Four-fifths of all States have subdivided into regions. Consequently, the requirement that projects for which credit is extended must be consistent with areawide planning and development should not inhibit the wide use of this type legislation. And those few States and rural regions which have not established regional mechanisms, this requirement in the law will encourage such development. It is important to point out that this concept—regional development—is completely compatible with the administration's proposal on rural revenue sharing. That legislation proposed that each State establish regional agencies and for those agencies to develop, in cooperation with the State, a State rural development program. In short, the benefit of this requirement, in our opinion, will make marginal units of local government viable. It will assure that duplicate and overlap is kept to a minimum. And most important of all, it will provide the mechanism by which public and private developments within the rural areas will be consistent, not only with the regional development plan, but consistent with State development policies. Ultimately, this interrelationship can be the mechanism for implementing national balanced growth policies as they are developed.

In completing our statement, Mr. Chairman, I would like to summarize these points on proposals in these bills:

(1) S. 2223 permits areawide planning and development agencies to receive loans, make loans, to become stockholders, and to serve as local agents for rural development banks. We prefer this approach to S. 1483 which simply makes such agencies eligible to obtain loans, but not to carry out any other functions.

(2) S. 2223 provides the financial agencies of areawide planning and development districts may become owners of banks under certain circumstances. We feel this is an important aspect of the legislation and prefer it to the lack of any such authorization in S. 1483.

(3) We prefer the definition of rural region contained in S. 2223 to that in S. 1483. Moreover, S. 2223 contains the authorization to broaden the definition when special circumstances may justify such expansion. We believe this type of flexibility should be encouraged.

SUMMARY

In closing, let me again emphasize that we urge the regional approach to rural development contained in both S. 1483 and S. 2223. We further urge the use of existing regional councils involving local government elected officials in carrying out this policy.

Congress has already given regional councils some basic tools to relate various Federal and State functional programs within a regional context. The legislation before this committee will give regional councils important additional tools to see that rural development is related to the goals for overall community development.

Mr. Chairman, this concludes my remarks, and once again I want to thank you and the members of the committee for inviting us to appear before you today. It has been a pleasure, and I hope our testimony will assist the committee in its deliberations on these proposals.

Senator Humphrey. Senator Bellmon?

Senator Bellmon. I would like to inquire—you live 30 miles from Washington?

Mr. Parran. Yes, sir.

Senator Bellmon. Do you consider your area to be a rural area?

Mr. Parran. Most certainly so. We have one building in our county that has an elevator, it is so rural. And we have only 40,000 people in my county, which is Charles. St. Mary's has about the same, which is below us. And Calvert County only has about 20,000 people. But at the present time one of the problems that we are going to face in the expansion of Washington, and we are talking about a new city concept that might just sit right in the heart of Charles County.

Senator Bellmon. You heard our previous witness suggest that we redefine or rewrite the section of the bill that defines rural area. Would you say that this bill should apply to communities 10 miles from the city limits of Washington, or 20 miles, or 30 miles?

Mr. Parran. Yes, sir.

Senator Bellmon. Where does the rural area begin?

Mr. Parran. I am not sure where it does begin and where it stops, because although we are rural right now and 30 miles from Washington, 10 years from now we are not going to be rural, we are going to be right on the outskirts of Washington, D.C.

Senator Bellmon. How are we going to fairly define a rural area?

Mr. Parran. I don't have an answer for that.

Senator Bellmon. Well——

Senator Humphrey. I imagine, Senator, that we will have to define it once and then redefine it as we go along. As a previous witness was testifying, I was thinking of my own experience. I live 39 miles west of Minneapolis in definitely a rural area. It is a dairy area. And on Highway 12 the first community you come to is Wayzata. Ten years ago there was a belt, you might say, a buffer zone between Minneapolis which has as its suburbs to the west Edina, St. Louis Park, and Golden Valley (those are the three suburban communities). And then there was an area of about 10 miles which was open country, where we had truck gardens and small businesses. And then you come to the Lake Minnetonka area. And then there was Wayzata, which was a small, very modest little town, which would surely qualify under the terms of this bill even now, but would qualify even more so as a rural community. But then from Wayzata as you move out, you come to Long Lake.

Now, all of that area is in a sense becoming part of the metropolitan area today. But when you come to Long Lake there is a big sign there which says, "We invite you to bring your industry to Long Lake. We invite you for rural development." That is a little town, one main street going through town, which is the highway going through it. But just as surely as we are at this table, 10 years from now that will be embraced in what we call the metropolitan area of Minneapolis.

And then you go a few miles down the road, and it is Maple Plain. Now, Maple Plain has a new plant. It is called Washington Scientific Instruments, and it employs a hundred or more people. Well, that has changed the whole town.

And then you come from Maple Plain to Delano. And actually the metropolitan area is beginning to reach out that far. And Delano is 30 miles west of the city limits of Minneapolis.

And then 9 miles on the other side of that is where I live. There is a little town in between called Montrose. Montrose has a little electronics plant, the sort of thing we are talking about, which has just changed the whole community for the good.

And then you come to our little town, Waverly, which has no plant as of yet, which proves that I haven't done very well by it, I guess. And it is lake country all around there. Again, I think most of the people who own property around that lake are holding onto it because it is the new development that you are waiting on.

So I think we will have to redefine periodically what we mean by a rural area. Quite obviously, most of these little towns that I have mentioned would qualify as rural areas. And around there there are a number of other little towns. We have a new town coming in, Jonathan. It is one of the "new towns" in Minnesota, and we have towns like Chaska, Watertown, Waconia, and Winsted. These all qualify.

I have to get you out there.

Mr. PARRAN. I think all of us are in the same boat. You describe an area exactly like ours. And although we are rural, there is no question about it right now, our problems are created by the cities near us on the people coming into the counties now, more and more people coming in. And we have one of the new city concepts that is scheduled for Charles County which might dump 70,000 people in a county that has something like 30,000 or 40,000 people now.

Senator HUMPHREY. We heard some testimony here some time ago from somebody in Maryland along this line where a county was getting a tremendous influx of people, but unsupported by the needed infrastructure, and no funding to provide it. This often happens when you get a big plant that comes into a small community which brings with it a tremendous number of additional people. The schools are not there yet, the sewer and water systems are not developed yet and the park system is not developed. You get all of the people, but you don't have the basic structure to provide the services for them, and no tax base in the beginning to finance it.

Mr. PARRAN. That is one of the things that these regional councils can help cope with.

Now, the three southern Maryland counties, the structure of our council is mostly government officials, elected officials, county commissioners, members of the legislature, and the people of that nature. We are all aware of this new city concept, and we have already started to study it. And something of this nature is very helpful. We are not just going to have it dumped in our laps. We hope we will be ready for it.

Senator HUMPHREY. Thank you very much.

Mr. PARRAN. Thank you.

Senator HUMPHREY. Senator Bellmon, I have a statement here from Senator Milton Young. Senator Young has asked to have it incorporated in the record, and I will place it in the record in the appropriate place.

Now, do we have our witness from Mississippi?

[No response.]

Since we do not, we will recess now and reconvene at 11:30 a.m.

[Short recess.]

Senator HUMPHREY. We will reconvene the hearing.

Senator Bellmon will be with us very promptly, but I thought we would just go ahead.

And we welcome Senator Quentin Burdick of North Dakota and others that are with him. We have Dr. Kenneth A. Gilles, Vice President for Agriculture, North Dakota State University, Fargo, N. Dak.; H. L. Thorndal, president, Bank of North Dakota, Bismark, N. Dak.; Stanley Kwako, president, Farmers State Bank of Heaton, Heaton, N. Dak.; and James Lewis, executive vice president, National Bank of Harvey, Harvey, N. Dak.

These gentlemen are here with Senator Burdick. Would you gentlemen like to come up here and sit along side. We welcome you, and you will be asked to make comments as we go along.

Senator, proceed.

STATEMENT OF HON. QUENTIN N. BURDICK, A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA

Senator BURDICK. Mr. Chairman, I want to thank you for this opportunity to testify.

North Dakota is the most rural of the farm States of this country with 55.7 percent of the State's population living on farms or in small communities of between 1,000 and 2,500 residents, according to the 1970 census. In the decade 1960 to 1970, North Dakota's population diminished by 2.3 percent, but that figure does not reflect the movement of people from the rural counties into the more urban counties of Burleigh, Casse, Grand Forks, and Ward. In the 10-year period 16 North Dakota counties lost more than 18 percent of their population. That means that the small communities of those counties have been slowly dying for 10 years. Business places on main streets are empty, farm houses and barns fall to pieces, and the people who provided services to farmers have been forced to move away, seeking new job opportunities.

This week I received a letter from a 49-year-old veteran of World War II which said, in part: "I have an auto and machinery repair shop here but the little farmer has been moving away to the extent that I had to give it up in 1966. I worked in a small town 22 miles south of here for 4 years and operated my shop at night and on weekends. September 10, 1970, I went to work at the missile site." That would be more than 100 miles from his small home community.

"I am a family man. We have five children at home. Being away from home is not good for me or my family. Can you tell me if there is some government or private enterprise that I could maybe assemble parts or equipment for, or build some kind of equipment, or anything that would supplement my income so I can operate my shop again. I have a fairly well equipped shop, although it is old, it is still in good shape. I have both electric and gas welding equipment, a press, and other equipment. There is need here for a good mechanic but just not enough to keep a fellow going. It is a nice place to live, a great place to raise children. It is too bad that the little towns can't survive. With a little help I think some of them could. Everybody can't move to the big cities, they are too crowded now. I have got two good hands and am willing to use them if I can get the chance."

I think this man's letter offers direct and striking testimony to what is happening in the rural counties of North Dakota and in the farm areas of other States. We need action on a national scale, a positive national policy on population and industrial growth—policies that will permit the people of rural areas to work together to have some control over their future. We need action that will provide opportunity.

Of course, basic to maintaining or rebuilding rural areas is the need for much better prices so farmers are not forced to leave the land. This has been a great year for farmers in North Dakota in terms of production. We have record crops of wheat and barley and oats. As a farmer friend wrote to me recently, "We had a cadillac crop but a bicycle price."

Senator HUMPHREY. I tell you, there is more wisdom in those farmers—you could go to Harvard for 20 years and not come up with a better quip than that.

Senator BURDICK. Mr. Chairman, I have here with me today a group of outstanding North Dakota leaders well qualified to discuss S. 2223, a proposal to make available to rural America additional sources of credit, credit that can help provide community services, new business enterprises, and employment opportunities and so keep rural areas alive and prosperous. I am proud to be one of the 52 cosponsors of this bill.

Mr. Chairman, I would like to present:

Herbert Thorndal, president of the Bank of North Dakota;

Dr. K. A. Gilles, vice president for agriculture of the North Dakota State University;

Stanley Kwako, president of the Farmers State Bank of Heaton; and

James Lewis, executive vice president of the National Bank of Harvey.

These gentlemen would like to present their views on S. 2223 to you and discuss with you the impact of this proposed legislation on the people of North Dakota.

I had hoped to have with me Mr. Lloyd Ernst, assistant to the general manager of the Basin Electric Power Cooperative. Due to previous commitments, Mr. Ernst cannot be with us today, but I understand that he is scheduled to appear before this subcommittee on Friday afternoon. I am pleased that he will have an opportunity to discuss S. 2223 with you, as I feel rural electric cooperatives are in a position to make tremendous contributions to rural community development.

Also, Mr. Bruce L. Bartch, director of North Dakota Business and Industrial Development Department, had hoped to be here today to present a statement. As he was unable to rearrange his schedule, he has asked me to request that his statement be made a part of the hearing record.

(The statement of Mr. Bartch follows:)

STATEMENT OF BRUCE L. BARTCH, DIRECTOR, NORTH DAKOTA BUSINESS AND INDUSTRIAL DEVELOPMENT DEPARTMENT, BISMARCK, N. DAK.

North Dakota is the most rural of all of the states in the nation. Eighty-five per cent of new wealth generated in this state is attributable to agriculture. A distant second source of primary income is manufacturing, followed by tourism and mining in that order.

As such, it is obvious that the economic well-being of all North Dakotans is dependent upon agricultural production and farm prices on a year-to-year basis.

It is not necessary, in the text of this presentation, to detail the plight of the nations farmers and the effects of national policy on the agricultural sector. It will suffice to say that the cost-price squeeze is causing the consolidation of the farms into larger, more economical units, forcing the marginal farmer off the land, resulting in the decreasing importance of the rural community as a viable economic force. The number of farming units continue to decline by about 1,000 per year.

During the past ten years census period, North Dakota has realized an absolute population decrease of 14,685 or 2.3 per cent and was one of three states to show a population decline. During that same period, the state had an out migration of approximately 94,000 persons. A recent study showed that the majority of these migrants, forced to leave the state because of the lack of job opportunity, tend to be the younger, better educated and of the higher ranked occupational categories. Not only is this situation cause for serious economic concern but also cause for much social concern. The aforementioned study further showed that the majority of the respondents would have preferred to remain in North Dakota had jobs been available.

Other results of dependence on a single sector economy are reflected in income. The U.S. Department of Commerce recently released figures estimating per capita income of North Dakotans at $2,995 as compared to a United States average of $3,921. Only four other states, all in the South, showed lower per capita figures. This gap is continuing to widen and must be stopped.

The obvious answer to North Dakota's economic ills is through a broadening of the economic base—through job and tax base expansion in sectors of the economy other than agriculture. Irrigation development will, at best, stabilize agricultural employment in the affected areas. It will by no means begin to provide jobs for an approximate 9,400 persons who are leaving each year because jobs do not exist.

While mining and mineral exploration have stabilized in North Dakota and there has been a steady if not dramatic rise in tourism, manufacturing and processing must be chiefly responsible for providing economic balance in the years to come. Many legislative incentives have been created in recent years to allow the state to both remain competitive with other states in the region as an industrial location site and to partially offset geographic disadvantages. These incentives have helped but have not solved our problems by any means.

We in North Dakota are not presently concerned with attracting laborers from other areas. Our primary goal must be to create jobs for North Dakotans and to decrease our mass export of educated youth.

This will be a tremendous task. We realize that it cannot be done without federal assistance. Neither local governmental units or state governments in rural areas have the resources to do it alone. It is a problem common to rural America, and North Dakota is the epitome of rural America.

Although this legislation is not the sole answer to our problems, nor is it without its weaknesses, it is my considered opinion that its passage would be a giant step in the right direction. For reasons stated above, I would respectfully hope that the Rural Development Subcommittee take favorable action on the bill.

Senator HUMPHREY. I believe we have more cosponsors to S. 2223. I am told the number is about 50. We are going up.

Would you like to present your first witness, Senator?

Senator BURDICK. Mr. Thorndal, in the order we have mentioned.

STATEMENT OF H. L. THORNDAL, PRESIDENT, BANK OF NORTH DAKOTA, BISMARCK, N. DAK.

Mr. THORNDAL. Thank you, Senator, and members of the committee. I have submitted the copies of my testimony.

Senator HUMPHREY. You may proceed, Mr. Thorndal.

Mr. THORNDAL. Mr. Chairman and members of the committee, thank you for the opportunity to appear before you. I would also like the record to show my appreciation to Senator Burdick of North Dakota for making arrangements for me to appear before this committee.

I am most enthusiastic about Senate bill 2223, which amends the Consolidated Farmers Home Administration Act of 1961. According to definitions described in this act, North Dakota is the most rural State in the Nation. We have long felt the decline of our population and the decline of the economies of the smaller communities of which our State is primarily made up. We are also aware of the imbalance of population and the mounting pressures created by this imbalance through the migration of our rural area populations and especially the migration of our young people to the metropolitan areas. We in North Dakota felt that the United States would be better off economically and socially in these population trends were slowed, stopped, or better yet reversed. Two ways that this can be accomplished are to create economic opportunities and to sustain the opportunities for good standards of living in our rural areas. I believe that S. 2223 will help accomplish this. I am not going to go into detail about this bill, as the sponsors have already entered their comments in the Congressional Record, and I believe, have appeared before this committee. There are certain features of this bill that I heartily endorse.

One is the concept of 10 regional banks to help implement the development aspects described in the bill. The Farm Credit System composed of the Federal land bank systems, Federal intermediate credit banks, and the banks for cooperatives, and also the Federal Reserve System, are outstanding examples of this regional concept. This decentralized procedure will help make this proposed system closer to the people in the communities it is to serve and will, I believe, tend to keep it from growing stagnant through a centralized bureaucracy. In my opinion, one of the reasons for the outstanding success of the Farmers Home Administration program is their county-by-county administrators and local boards. This proposal will work with Farmers Home Administration along similar lines in helping to organize multicounty or regional development agencies. This will bring the program close to the people it shall serve.

Another one of the reasons I am enthusiastic about Senate bill 2223 is that the bank I am president and manager of was organized for similar purposes and is still doing for North Dakota what this proposal Rural Development Credit System is to do for the Nation. The Bank of North Dakota has been an outstanding success. Because of its correlation to this bill's proposals, permit me to inject a little bit about the unique organization which I head.

It is the only wholly State-owned bank in the United States. The Bank of North Dakota, by legislative enactment, opened for business on June 20, 1919. The enabling act stated "for the purpose of encouraging and promoting agriculture, commerce, and industry the State of North Dakota shall engage in the business of banking * * * under the name of the Bank of North Dakota."

The bank was capitalized by the sale of $2 million in bonds which have since been repaid from the bank's profits. Since its organization, the bank has had cumulative net earnings of over $60 million. But more important than these earnings is the service it performs for the State. In addition to its net earnings the bank has paid for all of its operating expenses plus millions of dollars in interest on time deposits. Throughout the 1920's and early 1930's the bank made approximately 16,500 farm ownership loans on 4.2 million acres of land for approximately $40 million. Without this help the farm economy would have collapsed sooner and more drastically than it did. The bank was forced to foreclose on 6,500 tracts, but since then we have sold all but seven of them.

In 1941 the legislature directed the bank to retain 50 percent of the mineral rights on these foreclosed tracts. We now own approximately 750,000 mineral acres which have returned to the State almost $6 million through leases, bonuses, and oil royalties. The bank has continued to aid agriculture through the purchase of approximately $40 million in Farmers Home Administration farm ownership loans since 1957. Through the leadership of the Bank of North Dakota, the Farmers Home Administration farm ownership program has been highly successful in North Dakota, and the Farmers Home Administration was able to reach more farmers sooner in our State than most other areas.

The bank also created a secondary market for these Farmers Home Administration loans by offering to buy them at current market rates from other financial institutions around the State. Today the Farmers Home Administration, through certain security dealers and brokers are selling these mortgages on a national market. However, North Dakota was several years ahead of this by providing a secondary market for our own banks, through the Bank of North Dakota.

The Bank of North Dakota has become the leading underwriter for political subdivision bonds in our State. We have purchased over $63 million worth since 1957. Many of these issues are from our smaller communities. They are unrated and would have been very costly to market for these political subdivisions. Some recent examples are a rural fire protection district that borrowed $12,000 to purchase a fire truck. Another was a small school district that borrowed $60,000 to build a music room onto its high school.

The bank has created a market for these bonds, at a reasonable cost. Through this service, the bank has saved the taxpayers of the State millions of dollars. We have also, in the past year and a half, created national markets for North Dakota tax-exempt issues, selling many of these bonds outside the State, thus creating new capital for a capital-short State such as North Dakota.

The economy of many of our rural communities has declined to the point where selling their obligations at the most reasonable price available, which is what the Bank of North Dakota attempts to do for them, however even we must follow the bond markets quite closely, is no longer good enough.

Many of these communities, in order to develop themselves and become more desirable places to live, need outright grants and subsidies in order to improve their condition. Allow me to give you a personal example of this. My family started a bank in a small northwest North Dakota community some 17 years ago. The population was about 650 at the time we opened the bank in 1954. We sold the bank in 1966. During this 12-year period the community installed a sewer and water system, curb and gutter, we even paved the streets.

I owned a house in this community, until early this year. The population had declined to 450 according to the 1970 census. In order to sell the house, all of the special assessments needed to be paid in full for sewer and water, curb and gutter, and paving. This amounted to nearly $2,000. Now, you can see that it is almost impossible for a rural community to finance needed improvements at a cost in excess of $2,000 per house when they are losing population and the average family income is below the national average, and in many cases below the federally defined poverty level.

Surely the people in rural America are entitled to adequate water supplies, good sewage facilities, and mud-free streets. Without these services no one will wish to continue to live in these communities. Certainly, no new people will move there or new businesses seek to establish themselves there. Until these population trends are reversed, and additional economic bases are established, our rural communities will have to have some type of help, either outright grants or subsidized debt to secure and maintain adequate public facilities. Senate bill 2223 will make this possible. In addition, it will help alleviate a national problem by removing the debt securities of many of these smaller rural communities from the marketplace, which will make more funds available for the issues of our larger cities, which at times, during the past couple of years, have been hard pressed in finding markets for some of their debt securities.

At the present time the Bank of North Dakota is carrying on a statewide FHA and VA insured mortgage purchase program. We have approximately 1,600 single-family residential mortgages throughout the entire State. In order to provide more service to more people, we have set up a mortgage purchase program offering to buy from any eligible lenders, from anywhere in the State, FHA and VA insured mortgages. We have purchased over $1 million so far and expect to purchase $4 million more before the end of the year.

You may be interested to know that we are buying these at 98 percent of face amount, which is the lowest cost market in the United States.

The Federal Home Loan Mortgage Corporation just recently lowered their purchase price to 94 percent. The Bank of North Dakota has established a statewide market for our homeowners, at one-third the cost of the Federal Home Loan Mortgage Corporation national system. Only in the past couple of weeks has the national FHA and VA price come down a little, but it is still at approximately 94 percent in most areas. We do not know how long we can continue this mortgage purchase program at these reasonable costs in our State, but we think we can meet the demand through 1972. Senate bill 2223 will make it possible for all of rural America to benefit by low-cost housing through the Farmers Home Administration and where necessary through special programs of the Rural Development System, as proposed in the bill.

The Bank of North Dakota presently has over $8 million in participation loans with other banks throughout the State, plus nearly $3 million in special municipal industrial development obligations. Nearly all of these loans were to new wealth type industries, that is manufacturing, processing, or warehousing. The majority of them have been concentrated in the agribusiness area. This has created or retained over 1,000 jobs throughout the State.

We feel we have been quite successful in this area and that Senate bill 2223 would make this success possible in all rural areas. It would do even more. It would bring a measure of expertise not now available and directly stimulate the locating of new businesses and new economic efforts in rural America. I am certain it has been pointed out to you that the bill provides that there cannot be any pirating of businesses from one area to another.

Last year the Bank of North Dakota's net profits exceeded $4.3 million. We are going to pay to the State general fund $6.5 million during the present biennium, plus $500,000 for a special industrial mortgage insurance trust. This $7 million is a pretty good return on an investment of $2 million, all of which was made on borrowed money, long since repaid. Therefore, I predict that the Federal Rural Development Credit System as authorized in Senate bill 2223 will not only succeed in alleviating social problems in rural America, but will be an economic success as well.

Members of this committee, years ago when the Rural Electrification Administration was established there were those who said that it couldn't work; that it was economically unsound; that it was doomed to failure. The rural electric cooperatives of America have been an outstanding success. They have done more to raise the standard of living of our farm families than any other organizations in the Nation. They have also been a sound financial success.

Now, I know there may be those that say that they were successful only because of an interest subsidy, and I personally don't believe that their interest costs were a subsidy. No other Government agency stimulated overall business activity and sales of consumer products throughout the Nation than did the loans made by the Rural Electrification Administration.

The rural electric cooperatives have done an outstanding job in improving the life style of America's farms. They have also stimulated the economic development of rural America. But the rural electric cooperatives have expansion and improvement problems today and are faced with increasing costs and shortages of borrowed funds. They cannot take care, by themselves, of the economic development of rural America. A new agency such as the Federal Rural Development Credit System as proposed in Senate bill 2223 is needed.

In my opinion, this bill will provide the stimulus for local action and will make provision for keeping the policies responsive to local needs and to the people it will be serving. As I stated before, this bill will do for all of rural America what the Bank of North Dakota has been attempting to do for my State. With our limited resources we have been quite successful. With the much greater resources available to a Federal Rural Development Credit System, their success will be even more far reaching. This is a start in the right direction of reversing the population trends of this country and curing some of the social ills that these trends compound.

Thank you, gentlemen, for the opportunity to appear before you, and I urge your enactment of Senate bill 2223.

Thank you.

Senator **Humphrey**. We thank you very much, Mr. Thorndal.

I want the statement of the condition of the Bank of North Dakota to be printed in the record at this point.

(The document referred to follows:)

The Bank of North Dakota statement of condition—June 30, 1971

RESOURCES

Cash and Due from Banks	$10,440,017.51
U.S. Government Securities	19,712,767.10
Federal Agencies Securities	34,082,417.32
Bankers Acceptances and Other Investments	24,532,851.12
State and Municipal Securities	13,958,729.48
Federal Funds Sold	1,300,000.00
Other Securities	115,000.00

LOANS

Farmers Home Administration Notes	18,932,654.06
Federally Insured Student Loans	9,809,411.78
FHA and GI Home Loans	15,183,766.02
GI Farm Loans	91,372.97
R. E. Contracts—Farm	203,190.74
Loans to State Institutions	2,643,637.24
SBA Participation Loans	3,348,412.45
N. D. Bank Participation Loans	3,936,885.69
Total	54,149,330.95
Accrued Interest Receivable	1,069,075.68
Bank Building and Equipment	2.00
Total resources	159,310,191.16

LIABILITIES

Demand Deposits:	
Individuals, Partnerships & Corporations	2,256,960.08
Deposits of Banks	3,846,951.72
State & Political Sub-divisions	61,492,545.65
Official Checks, etc	1,410,731.31
Total	69,007,188.76

The Bank of North Dakota statement of condition—Continued

LIABILITIES—continued

Time & Savings Deposits:	
Individual, Partnerships & Corporations	$11,822,078.36
State & Political Sub-divisions	56,211,296.93
Total	68,033,375.29
Total deposits	137,040,564.05
Accrued Interest Payable	476,660.00
Reserves	2,724,020.98
Capital	2,000,000.00
Surplus	4,000,000.00
Undivided Profit	13,068,946.13
Total	19,068,946.13
Total liabilities, reserves and capital	159,310,191.16

(All securities are carried at par or cost whichever is lower.)

Senator HUMPHREY. This is truly remarkable testimony. And what you have done here in miniature, so to speak, is what we are trying to do on a national and regional basis. It is very similar to what we are trying to do under title II of our bill. Title I of course, expands the operations of the Farmers Home Administration, and gets in some of the things you are talking about—the necessary grants for rural development or nonmetropolitan area development that makes possible decent living in these towns.

In many of these communities like the one you mentioned where you established a bank, they have good infrastructure—they have streets, water, sewers, and they have all of the things needed to establish small industries if they could provide them with the financing they often want. And I want to make sure that some of my colleagues on this committee get a copy of your testimony. And I am going to ask the staff to see that this particular piece of testimony be sent with a covering note from me to each member of the subcommittee, calling it to their attention. It is very helpful to us, because it is a practical experience of what can be done.

You paid off all of the original capital, and the loan has long since been retired?

Mr. THORNDAL. Yes.

Senator HUMPHREY. It is like our PCA's and our Federal Land Bank and all of these great structures. They have all repaid, so to speak, and performed a very valuable function.

I mention this because I am sure we will have some people say, what we are trying to do is just give somebody a big grant of money or a big loan that would never be repaid. You have done quite well. And you have put $7 million back into the State treasury; is that correct?

Mr. THORNDAL. That is correct, Senator.

Senator HUMPHREY. That is very good. It is doing better than Humphrey's Drug Store.

Mr. THORNDAL. So far this year earnings are running $276,000 ahead of last year on the same date.

Senator **Humphrey**. Senator Burdick, who is your next witness?

Senator **Burdick**. I believe Dr. Gilles is next.

Senator **Humphrey**. Dr. Gilles, we welcome you, and we are going to ask you a few questions.

You have an extension service, don't you?

STATEMENT OF DR. KENNETH A. GILLES, VICE PRESIDENT FOR AGRICULTURE, NORTH DAKOTA STATE UNIVERSITY, FARGO, N. DAK.

Dr. **Gilles**. Yes, sir.

Mr. Chairman, I am very pleased to be able to appear before your committee at the invitation of Senator Burdick. I have a prepared statement.

Senator **Humphrey**. You may proceed.

Dr. **Gilles**. My name is Kenneth A. Gilles. I am a resident of Fargo, N. Dak., and am employed by North Dakota State University as vice president for agriculture. I have the administrative responsibility for the College of Agriculture, the Agricultural Experiment Station, and the Cooperative Extension Service.

This presentation is in support of S. 2223, to amend the Consolidated Farmers Administration Act of 1961. The proposed legislation recognizes the need for additional financial resources in rural areas to reverse the trends of out-migration which has been occurring throughout rural America. Inasmuch as North Dakota is highly dependent upon agriculture and receives only 15 percent of its new wealth in such areas as manufacturing, tourism, and mining, we believe that some comments relative to trends in North Dakota can be used as an illustration of the types of trends that appear to be occurring throughout the rural area of the Great Plains and in many other rural areas of the United States as well.

According to the recent census (1960–70), North Dakota has realized a population decrease of 14,685 people; a population decline of 2.3 percent. During this same period, the State had an out-migration of approximately 94,000 persons. It is particularly significant to note that there were certain trends within age groups. Specifically, in the group of 0–9 years, there was a decline of 37,556 people. In the age group 10–24, there was an increase of approximately 29,272 people. In the age group 25–54, there was a decline of 20,835 people; and in the age groups of 55 and over, an increase of 14,434.

Senator **Humphrey**. You say in the age groups of 55 and over there was an increase of 14,434. So that the elderly, or many of them, are staying on, and the productive group between the ages of 25 and 50, there was an out-migration of that group, and then an out-migration of your professionally trained and skilled people.

Dr. **Gilles**. Yes.

Senator **Humphrey**. Which leads to tremendous social problems and burdens on State and local government.

Dr. **Gilles**. People that are best able to assist in this are the people that leave, unfortunately.

Two elements of change are readily apparent. First, a decrease in the ages 25–54, the most productive years of life; the group that is most productive, most capable of assisting themselves and society.

Second, an increase in the 10-24 age group. It is this group which during the next decade may influence greatly the social and economic growth and success of rural America. The challenge is to reduce their out-migration.

The migration of people out of North Dakota is not the classical rural to urban migration of impoverished people that has been going on for a number of decades or even centuries in much of the world. It is a migration that is representative of an industrialized society. The out-migrants grow to young adulthood and are educated in North Dakota (North Dakota ranks high in percentage of people reaching age 25 that have college degrees or a variety of post-high school types of education). They leave the State and enter professional, technical, and managerial employment in urban areas where there are social and economic opportunities.

This change has been in part catalyzed by the increase in technology and managerial ability which permits one man to successfully farm more than a thousand acres of land. Obviously, as the area of land that one man can successfully farm increases, the need for employment of supportative people in the community diminishes. As this need diminishes, people leave rural America and seek opportunity in the larger cities where nonfarm employment provides an opportunity for economic success that is not apparent in rural America.

The tendency of change in size and organization of rural communities also seems to follow definite patterns. Those communities having less than 1,000 population tend to grow smaller; those communities in the 1,000 to 2,500 population range appear to be relatively stable in population; and those communities having populations greater than 2,500 appear to have the greatest tendency to grow.

When one observes these tendencies among the 20 most rapidly growing communities in our State, some trends are evident. Of the towns which had less than 1,000 population, Gwinner has grown 157 percent in the last decade due to the successful operation of a farm machinery manufacturing plant. The communities of Arthur and Grandin have grown approximately 27 percent each as a result of new agricultural processing plants. Stanton has grown 26 percent largely due to the erection of three electric generation plants. Horace and Southwest Fargo each have grown approximately 55 percent largely as a result of being bedroom communities in the Fargo-Moorhead area. While these trends could be discussed in great detail, I think the concept remains clear. Where there is opportunity for financial input, coupled with social opportunities, growth appears to be significant.

The need for low-cost, long-range credit in rural America is paramount. Currently, one of the areas of great need is in community services. To supply adequate water for many of the small communities and rural areas is a goal not yet attained. Many small towns and farms do not have a dependable local water supply. Recently, a nonprofit water users corporation was created to supply a rural water system for Grand Forks and Traill counties in the east central area of North Dakota. This system will cover nearly 1,000 square miles in 22 townships. Similar types of systems have been developed in Kansas, Nebraska, and South Dakota. However, considerable financial resources need to be brought to bear to solve these types of problems in many areas of the Great Plains so that the quality of community services will increase to approximate the levels enjoyed by metropolitan communities.

The need for long-range credit for manufacturing and processing industries in the rural areas is also of great significance. The decentralization of the feed and fertilizer industries, for example, provides an opportunity for people with ingenuity and managerial ability to maintain or expand these industries in the rural areas. However, the problem of lack of adequate long-term, low-cost finance frequently arises. I have been informed that the loan lending limit of half of the North Dakota banks is of the order of $50,000, and 80 percent have limits less than $100,000, sums inadequate to finance many of the types of industries and community improvements that are necessary. Conceivably, the Rural Development Credit Bank, in cooperation with existing credit agencies, would provide long-range, long-cost credit to assist in overcoming this financial limitation.

Technical advances in blending and mixing activities, both dry and liquid, have made it possible to localize certain formulation operations formerly performed by centralized chemical manufacturers. The feasibility of mixing and blending nutrient materials to customer formula has been an important factor in the proliferation of blending plant operations. By far, the largest concentration of these latter plants is in the Midwest.

Decentralization in formulation and blending operations is evidenced by the large increase in the number of bulk and liquid mix plants coming into operation between 1959 and 1968. Estimated number of bulk plants in the United States increased from 201 in 1959, to 4,140 in 1968, with over 70 percent concentrated in the north central region in 1968.

The need for regional planning for guidance of the total economic development of communities is recognized in S. 2223. When effective economic planning occurs, population increases and business activity increases usually result in increased economic activity for the mutual benefit of all of the population. It is evident in recent years that when financial resources were made available for such things as housing projects, electric generation plants, agricultural processing plants and manufacturing units, population trends have shown that out-migration has been reversed in these selective communities where economic and social growth has occurred. These are the types of reasons that prompt us to speak in support of S. 2223. We recognize that many of these accomplishments cannot or will not be made with private capital alone; consequently, the assistance of the Federal Government in stimulating growth in rural America is very important. It is our opinion that passage of this legislation would be a significant step toward human resource and rural development in America.

I would suggest that there may be some areas which would require clarification before the legislation was ultimately adopted. While we favor the concept of providing additional financial resources to enhance the quality of rural life, the organizational mechanics for the Rural Development Credit Bank might receive further consideration. For example, would it be advisable to include the Rural Development Credit Bank as a fourth agency under the general jurisdiction of the Farm Credit Administration? The FCA is eminently successful in its field and has the administration and resource personnel which could be able to guide the Rural Development Credit Bank very effectively.

Another area that might require clarification pertains to sections 710(c) and 708(12) and (13). The agency is authorized to engage in research and information gathering and to disseminate information. While we recognize the need for these types of activities, it may be prudent to define the intent of these sections to avoid duplication with services currently provided by other agencies, such as the land-grant colleges.

In summary, I would like to reiterate that we support the concept of the bill and believe that, as written, it would have marked significance in rural communities and specifically, in North Dakota. The definition of a rural area as any place of under 35,000 population that is not contiguous with a larger municipality is of significance also. This provision would provide the benefits of this bill to the entire State of North Dakota with the exception of only the three major cities, Bismarck, Fargo, and Grand Forks.

I thank you, Senator, for the opportunity to provide this testimony and to appear before you.

Senator Humphrey. Just a couple of brief observations.

In reference to the structure of the organizational mechanics, as you point out, the Rural Development Credit Bank, we gave a great deal of thought as to whether or not it is advisable to include it under the Farm Credit Administration. And since this title II of the bill establishes a system of banks that are primarily related to nonmetropolitan units rather than direct farm operations, we are of the opinion that it would be better to keep it separate. But that is subject to reexamination. I think since you have flagged this to our attention we will want to discuss it again. And it is a matter just of organization, as to whether or not this type of structure could fit under the total mantle of the Farm Credit Administration.

Also one thing that we have tried to do in this bill is to design a Rural Development Credit Board that relates itself directly to the economic and community facilities development of rural communities. It should have people on it who are specifically equipped by background, experience, training, and living patterns to understand rural America. And one of the dangers that we get into with these big boards is that the first thing you know, some top economist from some great institution is selected that is brilliant and able, but who knows little about the earthy problems that one has to deal with when living in rural America. There is a big difference between the theoretical knowledge and practical experience.

The best of all worlds, I should say, is a blend of both.

But we have insisted that even at the regional bank level that people who serve on their boards be from the area, so that we don't go off and get a regional bank board member from other States. We want to have people who understand their regions they are to serve, because there are major differences among the various regions of this country.

The one thing I find in Federal legislation that is so difficult is that we legislate for the whole country as if it were just one monolith. And everyone here knows that the problems of the Dakotas, the Plains States, are very different than those, say, of the seaboard, or of the Gulf States, and vice versa. We need regions that are related to the needs of people in particular areas. And we try in a sense to decentralize without having a total discontinuity of operation.

Mr. Baker, who is our staff consultant on this bill, has suggested that we might ask you, Vice President Gilles, to give us some specific language ot clarify sections 710(c) and 708, 12 and 13, on research and technical assistance. We think that your point is well made there. We don't want to duplicate it. And the land-grant college has been brought into this discussion a number of times, particularly the extension service aspects of the land-grant college. We have all our schools of agriculture, agricultural economists, but there is a whole new breed coming forward in terms of rural community development.

The president of the University of Nebraska suggested having these great land-grant colleges establish rural development institutes for long term research, for the dissemination of information, and for the holding of conferences and seminars. I think that there is a great merit to this, and we ought to look into it. This goes beyond our bank bill, but I think it is something that we really ought to look at, because those land-grant colleges tend to become just great universities, like my own University of Minnesota. And sometimes I am afraid they lose the sense of their original mission, namely to really be helpful to smaller towns and communities that are seeking to develop.

So any language that you feel that you would like to send to us in the form of a letter or a memorandum, we would appreciate it. We are in the process now of just adjusting this legislation, and marking it up. We may have to rewrite a lot of it. Senator Burdick knows that, if you get a bill in and it passes with your name still on it, you have made a substantial achievement. We don't expect that the original language would survive all your tests.

Senator HUMPHREY. Senator Burdick, who is your next witness?

Senator BURDICK. The next witness is Stanley Kwako, president of Farmers State Bank of Heaton. This witness represents a bank in the interior of the State in a rural community.

And it might be of some interest to the chairman that his brother resides at Detroit Lakes, Minn., and is a druggist.

Senator HUMPHREY. His brother is a very fortunate man in both categories, both in terms of his profession and his residence. That is Becker County, I want the record to know. And one of the finest summer festivals in the State of Minnesota takes place in Detroit Lakes. We have our Waterama there. It is very nice.

One of the advantages of being chairman of the subcommittee is that you get to brag on your home State.

STATEMENT OF STANLEY KWAKO, PRESIDENT, FARMERS STATE BANK OF HEATON, HEATON, N. DAK.

Mr. KWAKO. Mr. Chairman, I would like to thank you and Senator Burdick for giving us this opportunity to appear before your committee and express my views on S. 2223.

To give you a little background on myself, I have been affiliated with the banking fraternity since 1934. I presently own the Farmers State Bank of Heaton. The community of Heaton represents a population of 35 people.

Senator HUMPHREY. I would say that you are a unique witness. We haven't had anybody from such a large metropolitan center.

Mr. KWAKO. Now, in the State of North Dakota paying and receiving stations have been authorized by the banking department. And we have two paying stations, one at Bowdon, N. Dak., a town of 200 people, and one at Sykeston, with approximately 105 people. The bank has footings on $3 million, and a capital structure which authorizes a loaning limit of $25,000.

As you can recognize from this background, this bill would not affect my operation greatly. However, being a lifelong resident of the State of North Dakota, I have been able to witness the decline in population in our State. And the most significant cause of this decline has been because of the lack of opportunities for business development in our State.

The Government has been able to offer assistance to us through the Farmers Home Administration, which has enabled many of our farmers to continue their program. Without this help, many of our farm operators would have had to leave their farms, thereby causing a further decline of population in our State.

Now, we have many communities in our State and throughout the Nation that would benefit greatly by this rural credit system. And I think this is a wonderful opportunity for all the communities in every State of the United States.

I want to thank you kindly, Mr. Chairman, for allowing me to appear before you this morning.

Senator Humphrey. Mr. Kwako, for a community as small as Heaton, you have a rather substantial bank. Tell me, how is that?

Mr. Kwako. Senator, I was a former bank examiner, and it is hard to buy banks, and I was fortunate enough to be able to buy this bank with only $500,000 in deposits. In only 8 years we have increased the footings to $3 million.

Senator Humphrey. Who do you serve?

Mr. Kwako. Our farmers. We have the most efficient farmers in the State of North Dakota. And I am bragging, Senator. We have the most efficient farmers. Our farmers are diversified. We have cattle, sheep, and grain farming. Today some of our farmers have 20 to 30 bins of grain spoiled and dumped on the ground. They have just thousands of bushels, and they haven't any storage at this time. So we are greatly concerned.

Yet we know that this will work out somehow, because we have very efficient farmers.

Senator Humphrey. Where is Heaton located?

Mr. Kwako. We are about 70 or 80 miles northwest of Jamestown. We are west of Carrington, about 24 miles, and south of Fessenden.

Senator Humphrey. Do you have elevators there in Heaton?

Mr. Kwako. We have lost these. Peavey has closed up. But what happened, Senator. Peavey closed their elevator in Bowden—we have a ranch up there—but we, two farmers and the bank, the three of us got together and raised $80,000 to maintain that elevator, and we are doing a tremendous job there.

Senator Humphrey. Do you have rail transportation?

Mr. Kwako. Yes, the Great Northern.

Senator Humphrey. It still comes through?

Mr. Kwako. Yes, very good service.

Senator Humphrey. Is there a lot of wheat farming up your way, or feed grains?

Mr. Kwako. Lots of wheat farming. And we have lots of cattle, too.

Senator HUMPHREY. You mentioned this grain storage problem. That of course is beyond the jurisdiction of the subcommittee, but it is ever present in my mind. While I was back at my office a moment ago I got another call about our corn and soybean prices. They are going down the drain. I am waging a one-man war back here—not one man, but I am getting after the newspapers, and so forth, because they don't publicize our farm problems. Do you know what they published in the New York Times yesterday on the corn situation? No one ever did find out the price per bushel. It was the difference in the stock market of a point and a half. They don't know corn from a ukulele. I looked through the whole paper, and I said, what is the price of corn? They were only writing about the guys that were playing the market on corn, not the farm producer. What he is getting for the corn?

And this is a problem and, gentleman, while I have you here, this is a problem with this Government. The people down here, they just plain forget—except your Senators and a few of us that are in the Midwest or from the Southern States—there is a great body of interest, may I say, between our southern friends, as you will see on this committee, and those of us who are from the Midwest, when it comes to this agricultural problem. But we nonetheless live here in an environment in which there is never anybody that talks about the cattle, pork, oats, rye, barley, grain sorghums, corn, soybeans, wheat. The only thing they ever talk about is that the Canadians are selling the Chinese some wheat. That is about as much acquaintance we get here. We hear discussions about grain futures and all that sort of business—which, of course, is a part of the grain trade, but it doesn't get down to what effects that farm producer.

And I am here to say to you—and I want it for this record—that if our Nation's Capital were moved to Chicago, Minneapolis, Denver, Kansas City, or Milwaukee, there would be a different agricultural policy in this country. I swear there would be. If the farm people really knew what was happening to them down here they would make these hippies and others that have been running around here demonstrating look like they were kindly social workers. I am going to lead a little crusade around here for them.

Senator BURDICK. What is the price of corn in Minnesota right now?

Senator HUMPHREY. I think it is about 93 cents.

Senator BURDICK. I heard it was in the upper 80's.

Senator HUMPHREY. That is the market, but what we get for it may be 88 or 87.

Can you imagine what would happen if the price of automobiles dropped the same percentage as what has happened to our corn crop? Just imagine that.

Nobody down here talks about that.

Mr. KWAKO. But, Senator, we have the most efficient operators on these farms, and in spite of all of this they are surviving.

Senator HUMPHREY. I know. But believe me, we make it tough for them. They must be a hardy breed.

It is hard for me to contain myself, and I generally don't. I am going to make a real loud speech over in the Senate on that. I will let you know when I am going to do it.

The next witness.

Senator BURDICK. The next witness is James Lewis, executive vice president, National Bank of Harvey, Harvey, N. Dak. And Harvey is a little larger town, but still in the heartland of North Dakota, the rural area.

Senator HUMPHREY. Central North Dakota.

Senator BURDICK. That is about what it is.

STATEMENT OF JAMES A. LEWIS, EXECUTIVE VICE PRESIDENT, NATIONAL BANK OF HARVEY, HARVEY, N. DAK.

Mr. LEWIS. Mr. Chairman, I do not have a prepared statement. But I would like to thank you for letting me appear, and to thank Senator Burdick for inviting us down to Washington.

And let me give you a little background on myself. I have been in banking 17 years. I applied for a job as a bank messenger because I felt that the hours were right, from 9:00 to 3:00.

I am sure you are familiar with the First Bank System. I was an examiner for them 4 years out of Minneapolis. And then I wanted to go back to North Dakota. My dad had a creamery in Beulah, N. Dak., back in the thirties. I am a North Dakota boy. I was born there. And I wanted to go back and do what I could for North Dakota.

And Mr. Kwako here went to the Harvey community of 2,365 people in 1965 and chartered a national bank. This is what his action was. He went from door to door trying to sell stock in a bank. He did get it off the ground.

We started the new bank in Harvey in 1965. And our footings as of yesterday were a little over $5 million, in a community of 2,300, where we also have another bank. We have been able to grow. And I think one of the reasons we have been able to grow is that we have been able to support our outlying small areas.

One thing I would like to point out is, like Dr. Gilles said here, on this idea of loan limits, we have a problem. In North Dakota without the Farmers Home Administration I grant you that we probably wouldn't prosper the way we have prospered, not only because of the fact that they can make the money available to us, but also the terms. This is one thing about the bank. I am sure you realize the fact that when we go out to make a loan we have to probably limit ourselves to, say, 4 or five years, which, for a person just starting out—you just cannot make the required reduction in 4 or 5 years. They have to have an opportunity like this to be able to go ahead aond prosper on this thing.

Harvey is a community of 2,300. We are not a county seat. And so we are not dependent upon a county structure.

We have a creamery there which we have converted now to a cheese plant, and we will have the best cheese plant in the State of North Dakota within the next couple of years. At the present time our income from that cheese plant is about $900,000 gross. This means that this money is going back into the communtiy. This is what we have to have.

Now, with this type of program, as long as they say that they cannot get any other credit, where are they going to get a program like this, and I am for this thing because of the fact that we have to keep these small communities surviving.

And one thing I would like to point out. We had an election yesterday. I am treasurer of our school board. We have a mill levy on schools valuation of Harvey has remained the same for the last 10 years. And this is the maximum levy that can be levied without a vote of the people. Now, the costs of our operation of this school have gone up. But the valuation of Harvey has remained the same for the last 10 years. And the people cannot understand why we have to have money for the school. Now, if that valuation had continued to go up there would be no problem. But the way we are sitting there, we have the same valuation. Now, we are requesting an increase to 70 mills, which in our situation there in Harvey would raise our taxes $16 per hundred over what we are now paying—which isn't out of line. Our taxes are low. But we have the problem of this 55 and over. People in the small communities are staying, but they are not able to support this as far as taxes are concerned, and this is our big problem.

So there are many things I think that we have got to look at. But I just feel that this type of program would be very good for North Dakota. For one thing, we have 166 banks in North Dakota, and of those 166, about 90 of them are less than $5 million in deposits.

Senator Humphrey. You understand that this bill would permit the local bank to be the first agent, so to speak, which we think is so important, because you know the community, you know the potential borrowers, you work with these multicounty planning groups. And I am unalterably opposed to having a lot of new people come in on top of a community.

I think we have the talent out there. You can sell your paper to your regional bank, which puts you in business and permits you to have participating loans as well.

We had a discussion on that this morning, and I would like your views on it because we have some good bankers here with us. Under the SBA, for example, the bank can take a piece of it and the SBA guarantees the rest. You make an actual loan, with a guarantee behind it. FHA doesn't permit that at this time. What do you think about FHA having that right or that authority?

Mr. Lewis. This is the thing I was looking at when I reviewed this bill. I was wondering how it was actually different from the SBA program, because with SBA of course you guarantee a portion of it.

Senator Humphrey. That is right.

Mr. Lewis. In this program here you are participating out to this.

Now, one thing I feel is that this 1 percent—which I don't think is out of line for an outstanding balance, because, well, let's be honest, when you look at it—we participate with another bank on one of our loans, but we participate with the understanding that we have a compensating balance at that bank. If you look at, say, $2 million, with 20-percent compensating balance, you are looking at $400,000, and if you invest that $400,000 at 6 percent, you get $24,000. And in the long run we are better off under this program.

Senator Humphrey. I think you are by far.

Mr. Lewis. I think the Farmers Home Administration, if they could handle it this way, it would be fine.

Senator Humphrey. Any other comments?

Mr. Kwako. Jim covered that quite well.

Senator **Humphrey**. Fine.

Mr. **Thorndal**. Senator, in anticipation that something like this might have developed last winter in the legislation, the Bank of North Dakota secured legislation whereby we can purchase stock in Government-sponsored agencies in order to participate with them. So we have this authority. And we could purchase stock in your regional bank if this bill passes. And we would be one of the first to do this, to become participating members.

Senator **Humphrey**. Very good.

One of the other points that we try to incorporate into this regional bank structure is to be able to reach into other money markets, to bring capital in. Our problem in the Midwest has been that they reach into our money market, which limits what we have. And I know because my family has been in business in South Dakota since 1903. Of course, I was brought up in somewhat of a populist school. But my father was a businessman, and a good businessman. And we always left whatever money we had in town. We deposited it in the bank and left it in town, so it was available there for loaning. The problem with some of our business institutions is that they use the bank for a weekend deposit, and then send it out of town. I remember my wife's father, who was a businessman who was in the produce business. He was the kind of a man that contributed thousands of dollars to the college and other community enterprises. And sometimes we found in the early thirties, forties, and even in the fifties, that a certain number of our businesses didn't make very good contributions. We have to get some capital back into these rural communities, and that is one of the purposes here.

Anything else?

Mr. **Thorndal**. You mentioned tapping national markets. We have addressed this at the Bank of North Dakota, and we are going to seek legislation to issue bonds, debentures, and there is a constitutional provision against this at the present time. But we could tap national markets for sources of deposit. But this again would be short term, and we have contacted New York firms that could market these. But we can't tap the market short and lend long. And lending long is what we need.

Senator **Humphrey**. Exactly. Now you have put your finger on it. It is the long-term loan. You cannot finance community development or industrial development on short-term money. If you can, it really means that it is a pretty good operation already, and all they need is a little something to take them over the short period. But what we have tried to do here in this bill is to take accepted principles of international financing that our Government presently participates in and apply it to our domestic needs.

You take the Inter-American Development Bank. I served on the Committee on Foreign Relations here for over 10 years in the Senate, and we authorized huge sums of the U.S. taxpayers' money to go into the bank structure of the Inter-American Development Bank. Now, that Bank will loan money in a community in Brazil or Colombia or Peru for 20 or 40 years. And for part of that time we had a system where you paid nothing on interest or premium from 5 to 35 years. Now, that is great, except how about the folks out at Delano, Minn.

If we have money to give to somebody for 40 or 20 years for economic development—which we may have to do as a part of our world responsibilities—I think the same principle ought to apply have at home relating to our own domestic development.

Interestingly enough, the Inter-American Development Bank is now making money. It is able to sell its paper, as you know, and the World Bank also is able to sell its paper in the money market. They don't sell that paper by going broke.

You can see we are rather steamed up on this subject. And we hope we can do something about it.

Senator **Burdick**. We appreciate very much the time you have given us.

Senator **Humphrey**. I should indicate to you that Senator Young presented a statement to us which is incorporated in the record here. So both South Dakota Senators have participated in the development of this legislation.

And we are very honored to have Senator Burdick and Senator Young as cosponsors of our bill. We think we are going to make some progess, and push it as hard as we can, gentlemen.

Thank you.

Next we have Mr. Walley. Mr. Walley, I am sorry we had to pass you.

Mr. **Walley**. That is all right, Mr. Chairman.

This is Rex McRaney, who is going to give assistance in presenting our testimony.

Senator **Humphrey**. I am sorry that Senator Bellmon isn't here today. But we do review this testimony carefully with our staff, and what you say will be carefully noted.

Would you identify yourself and your associate who is accompanying you.

STATEMENT OF PETTIS WALLEY, RESOURCE DIRECTOR, SOUTHERN MISSISSIPPI PLANNING AND DEVELOPMENT DISTRICT, HATTIESBURG, MISS.

Mr. **Walley**. I am Pettis Walley, I am resource director of Southern Mississippi Planning and Development District, made up of 15 counties in southeast Mississippi, which is in color here on the map on the front of the statement.

Seventy-five percent of the budget of our agency is supported by the Economic Development Administration, EDA, and 25 percent by the counties and municipalities. It is our duty to be the catalyst in promoting local community development. This is accomplished by assisting local governments in obtaining Federal funds.

Senator **Humphrey**. You have a multicounty district, then?

Mr. **Walley**. Yes. We are the largest district in Mississippi. EDA is primarily interested in the creation of permanent jobs, and before we can do the things that are necessary, it is this old idea of whether the chicken or the egg comes first, and we can't get the hen, so we can't get the egg. This is our problem.

You have our presentation here. But to conserve your time, if I may, I would prefer to speak on this report.

Senator, our problem in south Mississippi—and I am sorry that I don't represent the entire State of Mississippi, but it is our responsibility to represent these 15 counties which have a population of approximately 500,000 people, from the Mississippi gulf coast upward into the hill counties of Mississippi, about 100 or 120 miles.

You will find in this testimony that we have assisted in creating, or been responsible for creating, some 10,000 new jobs for people that live in this district.

The largest number of jobs have been created in Jackson County, where the Litton Shipyard industry is located. Most of these people have come there by migration from the rural counties in the district and surrounding areas. And so Jackson County now has a problem of water, sewer, and housing which we are trying to help them solve. And this piece of legislation, if it is enacted, and if there could be much of the redtape cut which keeps the district from moving forward, in helping the communities this piece of legislation is the thing that we need. I live in a county in southeast Mississippi that has about 10,000 population, and we have had a population loss in the last 16 years. Six of our 15 counties, I believe, have lost population. We show a gain of population, but it has come because of this tremendous shipyard, the Litton Industries, in Jackson County.

So our area is a farm area and our people are the small farmers, and they have disintegrated, they have gone out of business because they could not support their families. And they have had to turn them out and they are growing up in what we call down there sage grass and it is not productive any more.

And we feel that this bill, if it is enacted, will give us the tool by which we might be able to bring industries into our counties, and therefore give gainful employment and business opportunity to our people. Many of our people, when they drop out of school or finish school, seek employment in the metropolitan areas and they are creating more problems in those areas than they already have.

And, therefore, I think that this legislation would keep these people at home where they want to stay and give them gainful employment and business opportunities where they can support their families and take care of their livelihood.

Thank you.

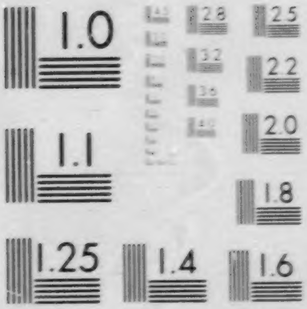
(The prepared statement of Mr. Walley follows:)

Mr. WALLEY. Mr. Chairman and distinguished members of this committee, it is a real pleasure for me to appear here today in unqualified support of the Consolidated Farm and Rural Development Act. If ever there was a piece of legislation whose time has come it is Senate bill 2223. For it is no exaggeration to say that rural America is in deep and grievous trouble—and that its steady disintegration threatens the very fabric of our national life. We all have come to realize, I think, that the awesome, frightening problems that beset the great urban centers will continue to defy the best efforts to resolve them until the root cause is boldly assaulted and eliminated. And is there any lingering doubt that the root cause lies in the economic decline of rural America itself?

As President Lyndon Johnson said in 1966, "Not just sentiment demands that we do more for rural America—the welfare of the Nation demands it." I will return to this theme in a moment, Mr. Chairman.

First, let me say that I speak in behalf of Senate bill 2223 not for myself alone, but also for the 15 counties that make up the Southern Mississippi Planning and Development District. These counties, mostly rural, have joined together to present a united stand against the massive problems that beset the whole of rural America. The strategy of regional planning and regional cooperation is succeeding—and it is, of course, regionalism that is the basic concept of the legislation that you have under consideration today. To those who would say that rural America is beyond redemption, to those who mantain that industry and people will not settle in the countryside. I say they are mistaken. We in southeast Mississippi are clearly making progress in our efforts to revitalize our economy, to rebuild our communities, to develop new jobs and to put a stop to the runaway migration of our rural families to the big city. Let me briefly cite a few examples of what has been accomplished in just the last 4 or 5 years: Modern water and sewer facilities have been constructed in 14 of our cities and towns; more than 10,000 industrial jobs have been created; a regional airport is under construction; the important Port of Gulfport is being expanded; medical and educational facilities are being enlarged and upgraded; programs are underway to improve the quality of rural housing and to promote the welfare of senior citizens. All of these accomplishments have been achieved in an area that is a microcosm of rural America itself. Eight of our 15 counties have a population of less than 20,000; only four have as many as 50,000 residents. During the 1950's, Mr. Chairman, five of our 10 purely rural counties lost population, and the rest barely held their own. But, significantly, during the 1960's they actually gained 10,000 new residents—a percentage increase of about 8 percent. So we have succeeded in reversing an outmigration trend that dated back 40 years, and we are moving ahead on the economic front after a generation of stagnation and despair.

This is our answer to the claim that rural America is as out of date at the model T and the corner grocery store. But the truth is that the progress we are making in community development, in job opportunities, and in the stabiliation of our rural population could not have been remotely possible without heavy Federal grant and loan assistance. The truth is that we still have a very long way to go before our rural areas become self-sufficient. I am confident that we will go all the way if the the broad credits proposed in Senate bill 2223 are in fact made available to us. As you know, rural areas have always been capital-deficit areas; their people in the main have always lacked the equity money for really adequate housing and for business opportunities; their financial institutions have always lacked the resources to help develop industry and jobs in the volume that is required. For example, only one bank in southeast Mississippi has assets of as much as $100 million—and not even the combined lending power of all the banks in the length and breadth of rural Mississippi can match that of the typical metropolitan bank in New York or Chicago. Moreover, the vast majority of our towns and villages lack the tax base to finance the kind of public improvement programs that industry and individuals want and demand. So industry stays away and our people go elsewhere. Since 1940, Mr. Chairman, 24 million rural Americans have gone elsewhere; they have abandoned the countryside and fled to the urban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MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS-1963-A

areas in search of jobs and the better life. Today, some 150 million Americans, or 73 percent of the population, live in the city—and they are jammed and crammed and packed into just a little more than 1 percent of the Nation's total land area. The worst may be yet to come. The U.S. Bureau of the Census estimates that the population of the United States will increase by about 100 million during the next 30 years.

President Nixon has stated, and I quote him: "Where they grow up, and how, will more than any one thing measure the quality of American life in the years ahead." We know without a doubt that the quality of American life has eroded in direct proportion to the exodus from rural areas. This migration has placed intolerable burdens on the New Yorks and Philadelphians and Clevelands of America—and in a great many instances it has robbed our rural areas of their brightest young men and women * * * the hope for the future. Today, rural America accounts for only about 27 percent of the national population—but at the same time it accounts for fully 70 percent of the Nation's poor. In some of our rural counties in Mississippi, the per capita income is 50 and even 70 percent below the national average, and the unemployment and underemployment rates are the shame of a nation. Listen to what Mr. J. P. Lyford writes in the Airtight Cage: "Why," he asks, "must large concentrations of unemployed and untrained human beings continue to pile up in unstable cities that no longer have the jobs, the housing, the education opportunities or any of the other (necessities) for a healthy, productive life? Why do we treat the consequences and ignore the causes of massive and purposeless migration to the city? Why are we not developing new uses for those rural acres that are rapidly becoming depopulated."

I think that Senate bill 2223 does treat the causes of the purposeless migration of which Mr. Lyford speaks. I think the bill would permit us to find new uses for rural acres that have been barren since the agricultural revolution wiped out the small farm that once was the pride and glory of a nation.

Those of us who have spent our lives in the countryside are convinced that industry and people would beat a steady path to the modern rural community, with its cheaper land costs; its more equitable tax structure; its open spaces and cleaner air, and its less frantic pace. The alternative is the slum-ridden, traffic-congested big city, with its swollen budgets and skyhigh taxes; its polluted air, and poisoned rivers; its alarming crime rates and its hurried, coldly impersonal life style. A report of the Economic Development Administration estimated that by 1975 the major urban centers of the Nation, excluding those in California, will have a shortage of 3 million jobs unless the migration from rural areas is not only halted but reversed. We believe that this increasingly explosive situation can be defused, Mr. Chairman, by the passage of the Consolidated Farm and Rural Development Act. The bill would provide financial assistance to industries that want to locate out of the sprawling urban areas of the Nation. Nothing could be more desirable at this point and time in our history. I can truthfully say that seldom does a day pass that the Southern Mississippi Economic Development District does not receive inquiries from businesses that want to come to our area. Far too often the necessary financing cannot be arranged. The EDA program has served us well, but its minimum loan—$350,000—excludes smaller businesses from consideration. The SBA program is not as effective in our area as it might be. It usually provides only bank guarantees. And as I have stated, ours is a capital-deficit area as is most of rural America. The business loan provision in Senate bill 2223 would supplement the two existing programs—EDA and SBA—and at the same time provide an entirely new and necessary funding vehicle. Second, the legislation contains funds for community improvements, such as water and sewer systems and housing developments. One major reason for the disintegration of rural America is that it has been unable to provide modern community facilities.

We still have towns in Mississippi that are trying to compete in the 1970's with public utilities that date back to the turn of the century; we still have towns in Mississippi that do not have sewer systems at all; we still have towns in Mississippi whose tax bases are so low that they cannot qualify for grants and loans under existing Federal programs. So we strongly endorse the loan provision of Senate bill 2223 and urge its approval. I would respectfully request that the committee consider an amendment that would authorize 100-percent loans to a community that is unable to purchase stock in the multicounty finance agency. Or, perhaps, the capital investment could be deferred for a period of 3 to 5 years. Even the smallest and poorest community ought to be given the chance to forge ahead if it is willing to pay the price in bonded indebtedness and higher utility rates.

Mr. Chairman, rural America wants to look after its own. We do not want to go on exporting our problems and our poor to other areas of the country. We do not want to become everlastingly dependent on the welfare dole. We want to stand on our own two feet. Mayor H. H. Lawler of the small town of Rosedale, Miss., spoke for rural America, I think, when he said:

> We have repeatedly tried to attract industry without success because our municipal facilities are inadequate. We cannot obtain sufficient monies to make improvements without economic and industrial progress, and we cannot make economic progress without improved municipal services. Thus we are hopelessly stalemated. We want our people, black and white, to stay in Rosedale. This is their home. They cannot cope with big city life and the big cities cannot cope with them. I am certain that federal funds spent here in Rosedale for industrial and municipal development, for raising our standards of living will accomplish much more than the tremendous funds that will be required to provide for these rural people if they are forced to move to the city.

Mr. Chairman, Congress has never shirked its responsibility to rural America. We can all point with pride to such legislative landmarks as the Rural Electrification Administration, the Tennessee Valley Authority; the Farmers Home Administration, the Farm Credit System, and so on. We urge you to now take the next giant step forward and enact into law the Consolidated Farm and Rural Development Act. You will be glad that you did.

Thank you.

Senator Humphrey. I notice that you say, "The vast majority of our towns and villages lack the tax base to finance the kind of public improvement programs that industry and individuals want and demand." And then you note later that you get a number of inquiries practically every week.

Mr. Walley. That is right.

Senator Humphrey. From industries that are coming in.

Mr. Walley. That is true.

Senator Humphrey. And according to your testimony, I understand that the main thing that you find is the lack of adequate credit resources.

Mr. Walley. That is right. In other words, many of the industries that want to come in do not want to come into a community that does not have sewer, water, or industrial parks but still have cesspools. And our district has 42 communities, from a village of around 20 on up to 50,000. This 500,000 population is attempting to live in these communities where FHA does not go out and make loans for sewage and industrial parks. They will put in the water, but they won't put in sewage and industrial parks, and we will like to have sewage and many of these small towns are having to put their sewage into the streams and pollute the streams. And the Federal Government has said that they have got to stop this by a certain time, and we don't have the money to do it with. The only way we are going to be able to do it is through Federal Government coming in and subsidizing us in some way. EDA, even though they have done a great job in southeast Mississippi, does not go into a community unless you are creating jobs, and you can't create jobs unless you have got the facilities to do it.

Senator Humphrey. This is where the chicken and the egg analogy comes in.

Mr. Walley. That is right, and we don't have the hen and we are doing without the egg and our people have to go 100 or 150 miles to Alabama or the gulf coast to get employment, and they can't get houses down there, and so they have to commute back and forth home. This is the problem in southeast Mississippi. And this bill, without a lot of the redtape, will go far in alleviating our problems.

If you notice, in this area we don't have the large banks, we only have one bank that has over $100 million of deposits.

And most of these communites in our area are communities which have the chicken and egg problem. They will not advance this money that we have to have in EDA to small businesses where you have to go out and put up 10 or 15 percent of the capital stock and this is one of the recommendations that we have made for changes in this bill, that the smaller communities not be required to put this 10 or 15 percent of the capital stock up.

Senator Humphrey. I noticed that you felt that every community ought to have a chance to participate.

Mr. Walley. That is right.

Senator Humphrey. And there might be a period of grace, so to speak.

Mr. Walley. Now, the corporation could put it up in many communities, and of course this is on a better basis than EDA or the SBA requires, because they require local people to put it up. And when you start putting $150,000 or $200,000 in a large industry over a period of 20 or 25 years, there is nobody that has got the money that wants to put it in there and leave it in for that length of time. So, therefore, we are without industry.

Senator Humphrey. I think this point is one that is very valuable for your consideration, because many times we have people say, if all we really needed to do was to get industry into town fine, but the industry won't come into town unless you have certain community facilities.

Mr. Walley. That is right.

Senator Humphrey. Therefore, you have a sort of in-and-out operation all the time. When you are negotiating for an industry and they are ready to come in, they say, what about your water system, what about your streets, what about your street lighting, and what about your sewage system.

And you say, we can't afford that right now, and then they say they can't come in. But if you could get them to move in they would broaden your tax base so you could afford to make the improvements that both of you want.

Mr. Walley. This is what we are talking about in this, that we can't get them in there and we will have to say that these facilities are not available. Many of the communities cannot buy up the land for an industrial park and many of them want 5, 10, maybe 40 acres and the small community is not financially able to buy that land up and say, we have got this land, it is near the railroad and many of our communities don't have natural gas and that is one of the things—in EDA we are barred from carrying natural gas to these communities, and that would make it tragic for industry, because many of the industries have to have natural gas for the processing of their products.

Senator Humphrey. We will take note of your testimony where you say:

> I would respectfully request that the committee consider an amendment that would authorize 100 percent loans to a community that is unable to purchase stock in the multi-county finance agency, or perhaps the county investment could be deferred for a period of three to five years. Even the smallest and poorest community ought to be given a chance to forge ahead if it is willing to pay the price in bonded indebtedness and higher utility rates.

We will take that under advisement in that we are going to be looking over this bill again, and its specific language.

I notice the statement of Mayor Lawler of Rosedale, Miss. I think that it is an excellent statement. I think he summarizes so well what we have been saying:

> We have repeatedly tried to attract industry without success because our municipal facilities are inadequate. We cannot obtain sufficient moneys to make improvements without economic and industrial progress, and we cannot make economic progress without improved municipal services.

And this is where this new structure comes in between, without, we think, violating the purposes of SBA or EDA. It provides that long term credit that makes possible what we call an industrial development loan or a business loan out of SBA, or out of EDA, because it provides the community with the kind of services that might be needed.

Mr. Walley. Well, EDA will not go below $50,000 in their industrial loans.

Senator Humphrey. Not above, you mean?

Mr. Walley. They will go $50,000 and above.

Well, SBA many times comes in and says, all right, we will issue to the bank a guarantee on 90 perc[illegible] it, or maybe 80 percent of it. Well, the banking institution of [illegible]mmunity or that area don't have the capital that they could p[illegible] it and it is what is further hindering us.

Senator HUMPHREY. And our title II program would provide for assistance not only to communities and multicounty finance agencies, but to private industry, and to nonprofit corporations, for industrial parks and for financing industrial development, as well as for community development.

Mr. WALLEY. We have found in some instances—and of course where we have the industrial park, and maybe we have gotten an industry in, and that industry has moved out, we are able to fill that building again if we have the building already situated with those other facilities. And many times we have bonded ourselves—I heard some gentlemen here talking about the tax structure—and we do have in most of our counties around 70 mills on the average, and we are putting about 30 mills into education and the tax structure is on about 50 to 60 percent of its real value. And in our community of Perry the Federal Government, out of 411,000 acres, owns 132,000. And another large corporation owns all of the rest of it, with the exception of a little over 100,000 acres, is what is left for us to try to improve and help and expand on these 10,000 people.

Senator HUMPHREY. Do you have any comment on that which you would like to make?

STATEMENT OF REX McRANEY, VICE PRESIDENT, MISSISSIPPI BANK & TRUST CO., JACKSON, MISS., REPRESENTING THE SOUTHERN MISSISSIPPI PLANNING AND DEVELOPMENT DISTRICT

Mr. McRANEY. Mr. Chairman, I am Rex McRaney. I have met you over the duck situation about 10 years ago, if you recall.

Senator HUMPHREY. Yes, sir.

Mr. McRANEY. Senator, I have one suggestion. I have known Mr. Walley a long time and I think it ties in with this bill. I am with the bank now and we are a deficit-financed State in Mississippi and we have to have outside capital, because our bank base and our local capital income is the lowest in the Nation, a little above $1,200 per year, and you can see what that, moneywise, does to us. And our banks are not structured financially well enough to assume a lot of roles, even though the bill provides for it. But the one thing I observe that we are doing in Mississippi—and this may be done in other States—that is going to hurt us in the end is, we are developing water systems, and because there are only 100 or 150 people in the community, we put in a water system that will take care of those needs and the main trunklines are 1- to 2-inch trunklines, and by developing the water system it will cut the price of a home about $1,500, because it takes about $1,500 to build a well if you dug it yourself. But once you get these 15 people on the water system, we have already obligated ourselves to this system, and it is not capable of adding any more to it.

Senator HUMPHREY. Exactly. I am very familiar with this.

Mr. McRANEY. So if this can be done on a multiple-county basis, like rural electrification, I believe it would solve many more of our problems, if we could put down the basic facilities, the trunklines anyway. And it would appear that we could put the sewer and water and perhaps the gas system all in one trench, and if we could do that, it wouldn't cost but very little more in the beginning, because your labor is in your trench, and the additional cost is in the size of the pipe. But it would serve the needs of the community for a long time to come and we could turn this outmigration around and get these people to stay there. But the little system that we are developing is defeating its own purpose.

Senator HUMPHREY. I have seen that happen in a locality that I am familiar with where 8 years ago they put in a sewage system, but it was just big enough to handle the number of people already there. Then a little company wants to come into town, and they had to say, we can't handle you.

Mr. MCRANEY. I hope you will give some consideration to deferred payments on these loans for at least a period of 3 years. If you can get the farmers and other people by 3 years, they can make their own. That first 3 years is where they have most of their problems, and what we try to do is keep the rural people and get others to come back to rural America and we should be sure that we will accomplish that purpose. And I believe, by deferring the payments, giving them a grace period of 3 to 5 years, that the intent of the legislation here will be served, and it will serve the people.

Senator HUMPHREY. You heard what I said. We have done that in some of our international aid programs, because of the serious economic underdevelopment in many countries, and the problems of the people.

Mr. MCRANEY. And, Senator, I just want to comment on the prepared statement of Robert Frederick. I think he hit the nail on the head when he said, you still have got to have the initiative of these local people. And I hope in creating this bill you will realize that these local people probably know their own conditions a little bit more than anybody else. And when the people of your stature come into the rural areas of America, if you would not talk on the points like the New York Times that you referred to, but if you would just tell them what you are trying to do, and that you need their help locally, and you want to give some time and support to it—we have many people that won't read this bill, but if Senator Humphrey would come to Perry County and all the counties around there, and you explained it to them, it adds something to your encouragement of the local people to do it.

Senator HUMPHREY. Right. We have been conducting as you know, some field hearings. We have been in Alabama and in Georgia, and we have been in South Dakota, Iowa, Nebraska, and in Oklahoma.

Our problem around here is, every Senator is so darned busy with various assignments. Like today, I have two other committees that are holding very important hearings that I really would like to be attending, but it is also very important for me to be here since I am chairman of this subcommittee. We just run a little short of time. But we have scheduled a number of hearings on this legislation, and on other legislation, before this subcommittee including a number of field hearings. For example, I was down to Memphis, Tenn., not long ago, addressing the League of Municipalities. I talked to them about this legislation since it involved local officials. And I was with the assessment officers up in Boston yesterday morning. We had about 3,000 assessment officers who are the men that make the assessment valuations, and I told them a little bit about our proposal, about our farm and rural development credit system, and I urged their participation. I urged that they study this legislation.

We will do a great deal of that. I think you are right. None of this will work unless the local people want to make it work. This is just a helping hand.

Mr. **McRaney.** If the local banks, the leadership in the banks, would get behind this bill and cooperate with it, and if you could find some way to get them to read it and see what you are really trying to do, I think you could do it.

Senator **Humphrey.** We had the Independent Bankers Association in today and we are very fortunate in having their cooperation. And we are going to enlist the support of the other banking institutions, because this legislation is not injurious to them at all. It is supplemental.

Mr. **Walley.** Let me say this, Senator. We certainly appreciate the privilege of appearing here and offering this testimony. We appreciate your staff sending this information on this bill out to these planning and development districts. And I have spent about 3 weeks talking to chambers of commerce and bankers and public officials, trying to explain what this legislation would do for them. And there is a great deal of interest and support in our area for this legislation. And we are certainly very grateful to you for taking up your time.

Senator **Humphrey.** You know that your two Senators, Senators Eastland and Stennis, are cosponsors of this legislation?

Mr. **Walley.** I know that.

Senator **Humphrey.** We have 50 now, so we are coming along.

Thank you very much, gentlemen.

We will adjourn until 9 o'clock tomorrow morning.

(Whereupon, at 12:55 p.m., the subcommittee was adjourned, to reconvene at 9 a.m., Thursday, September 23, 1971.)

RURAL DEVELOPMENT

THURSDAY, SEPTEMBER 23, 1971

U.S. SENATE,
SUBCOMMITTEE ON RURAL DEVELOPMENT
OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:15 a.m., in room 324 Old Senate Office Building, Hon. Hubert H. Humphrey (chairman) presiding.

Present: Senator Humphrey (presiding).

Also present: Senator Pearson.

Senator HUMPHREY. We will open the record and proceed with our hearing, hoping that our colleagues will be here shortly.

Our first witness is the Honorable Edward T. Breathitt. And he is accompanied by the Honorable Norbert T. Tiemann. Both gentlemen are former Governors of Kentucky and Nebraska, and cochairmen of the Coalition for Rural America.

Will you proceed?

STATEMENT OF HON. EDWARD T. BREATHITT, CHAIRMAN OF THE BOARD, AND HON. NORBERT T. TIEMANN, PRESIDENT, COALITION FOR RURAL AMERICA

Mr. BREATHITT. Before I proceed I want to express my appreciation to you and your subcommittee and the chairman of the Senate Agriculture Committee for your leadership in this area.

I, myself, have had some experience in problems affecting rural areas. I have had the privilege of serving as chairman of two Governors conferences conference committees concerning these problems, Chairman of the Appalachian Commission, and Chairman of the President's Commission on Rural Poverty. And after I left office I headed the Institute for Rural America.

We have filed some very fine reports pointing out the problems in rural America, the outmigration of our citizens to the city, and the need for balanced growth in this country. After we filed those reports, Senator, we have gotten nice pats on the back, some good editorials, and nothing else, until you provided this leadership, and your subcommittee, and the fine leadership also of Senator Pearson. I now have some hope that we are going to get some action on what I think is a vital problem, and one of tremendous concern to all of us.

In our study we found that 50 million people had left rural America for the major cities, the largest migration of human beings in the history of the world. And our farm population has dwindled to the point where 800,000 farms produce 90 percent of all of our food and fiber, and 95 percent of our people live on 10 percent of the U.S. land area. And 14 million people have been left behind in rural America in terrible poverty.

The President's National Advisory Committee on Rural Poverty, which I chaired, concluded in 1967:

> Rural poverty is so widespread, and so acute as to be a national disgrace, and its consequences have swept into our cities violently. The urban riots during 1967 had their roots in considerable part in rural poverty. A high proportion of the people crowded into city slums today came there from rural slums.

And through a complete lack of any governmental policy we have permitted rural America to deteriorate like a rusting hand plow languishing in a fallen down barn, while the social and economic problems once scattered across the thousands of square miles of our great land have become compacted into urban ghettos, where they have become both more evident and more volatile.

As your colleague, former Secretary of Agriculture Orville Freeman says, this process couldn't have occurred in a more efficient way if we had planned it in our national policy councils.

As you know, Senator, Governor Tiemann and I have been chosen to lead the Coalition for Rural America, and we are very grateful to you for keynoting our organizational meeting.

In directing the activities of the coalition we will be guided by these principles: We are strongly in support of a structure of agriculture that includes prosperous family farms and an economically viable marketing and processing system based in rural areas.

In building a rural America, our aim is to see that development is consistent with the preservation and enhancement of a quality environment.

We are concerned not just with the aggregate development of the rural economy, but with eliminating the causes and ameliorating the effects of rural poverty, through such measures as welfare reform and public service employment.

We are committed to the principle of equal concern for, and equal involvement for, all the people of rural America without discrimination on any basis.

Admittedly, these are very broad purposes that take in a lot of territory. But the need clearly exists. The people who live in rural America need a voice, and we hope to give it to them. Certainly there are a number of fine farm organizations now existing, and we support their basic aims, and we will work closely with them. But the fact is that the vast majority of the people now living in Countryside, U.S.A. are not farmers. And this was a very revealing fact to me when our hearings and our work pointed it out to us in our Rural Poverty Commission. These people, your county school superintendents, your teachers, your small town bankers, your small town hardware dealers, your automobile and tractor dealers, the people who live on a little family farm but can't make a living, and are working in some plant—in some places in Kentucky they commute 500 miles, also have a vital stake in an economically viable rural America. Interestingly, whenever we have located a plant in our rural areas, particularly the Appalachian areas of our State, we find we have a ready labor supply in Detroit and Cleveland, and they come home.

Since the depression we have heard talk about rural development, but something seems wrong. Somehow there has been only talk and not much action.

In the past 10 years we have heard a lot of talk about balanced national growth, a balance between rural and urban America. And again we have just heard talk. There are about 200 Federal assistance programs designed in whole or in part to help rural America, and somehow they are not having an economic impact that would promote balanced growth.

Clearly some new approaches are necessary.

Some of our rural programs, especially some of the farm programs, are relics of an earlier time when things were different than they are now. These programs were developed without a realization of what farm mechanization, three wars, and vast urban industrial expansion would do. As a matter of fact, there is considerable evidence that much of the continuing research and human development efforts of the Federal Government do not promote balanced national growth, but merely speed up the migration process from rural to urban society.

Take a look at the age of our farm population. And this has concerned me in our study. It is old. Obviously certain factors will take hold to prevent this trend from continuing. But at the present rates of farm family outmigration, in 20 years there will be no one left in America that knows how to operate a farm. Now, if this were to happen, no amount of fancy new machines will be enough to restore our proud claim as the best fed nation in the world at the lowest cost in terms of take home pay.

Obviously these trends won't continue, and we can't let them continue. But who are our farmers likely to be if these trends continue? They will be employees of large corporations. The rural land now populated with family farms—and these families who consume the goods of our industry and make the countryside economically viable, and are a base for the strong values in this country that have made it sound, and have made it grow, are going to be gone.

I have been tremendously impressed with your statements, Senator Pearson's statements, and the statements by the chairman of this committee, Senator Talmadge. And I am grateful for the hearings that this subcommittee has held throughout the country, because whereas our commission held hearings, we had no ability to implement our recommendations. And this committee and the Congress does have that ability. And we as a coalition intend to strongly support your efforts. We applaud your efforts. And so we are here today to give you our support and encouragement.

Again there are those who are going to give you reasons why this will not come to pass, the predictions that I have made. But few can contest the fact that a young man today who is not born into the ownership of farm land will find it very difficult to get a start in agriculture.

I will give you a personal example, Senator. When I left the Governor's office and wanted something to do I thought about going back to my county, which is the largest agricultural county in Kentucky. My grandfather lived on a farm, but we lost it in the depression. I decided that I would go back, because you have got to do something with former Governors. So I decided I would farm.

When I got into the question of the capital investment necessary for me to have a viable farm, it was just impossible for me to make that kind of investment. And the farmers in Christian County that are now farming, the young men who have inherited the farms, have made their money somewhere else, and then have just chosen to invest in farming. I know of almost no one in my county who has been able to start out, borrow the money, but a farm, and make it work.

Senator Humphrey. I think that is a very telling point. And this is the characteristic throughout the country.

One thing that running for office does for us, as we all know, is that we get acquainted with the people we represent. And when you are in office like I have been for a long time you tend sometimes to get away from the people that you represent. During the time I was majority whip in the Senate I was very busy, and during the time I was Vice President I obviously was not giving as much attention to my own people in Minnesota as I would like to or as I should have. But when I got back home, by the will of the electorate, after 1968, and had a chance to travel around my State, and then ran for office again, I really got a feel for what was going on. And I have spent a lot of time in Minnesota. And I now continue to go home very regularly. And I find what you are saying as absolutely true. I don't hardly recall—and I get around a great deal—when I've known of a young person who has started a farm on his own. They either inherit it from their family, or they are the son of a doctor who made it, or the son of a corporate executive who made it, or a successful businessman, or they married the daughter of a farmer that had 400 or 600 acres, which is a good farm, and that is the way they got started in farming.

You talk about independent business. This is the most independent of all businesses. And there just aren't any people going back into it.

We saw this age factor problem in one of the counties we recently visited, either Oklahoma or Nebraska, where the average age was about 55 or 56.

Mr. Tiemann. Red Willow County, McCook, you were visiting.

Senator Humphrey. Yes. And of course that is quite static.

In my own county, Wright County, there are very few young farmers. There is beautiful land there. It is rich, black earth. And it is good dairy country as well. But it costs a lot of money to start a dairy farm. You have got to be quite well off.

Go ahead. Excuse me.

Mr. Breathitt. Go right on, Senator. I like what you are saying.

Senator Humphrey. You know, it saddens me. And I must say, the last few days as we have been holding these hearings, and as I travel around, I have a very peculiar reaction. I am quite angry. I am angry, for example, that we can have a hearing around here about some problem that relates to the refugees from Pakistan, and the place will be packed, every newspaper man will be in here, and the cameras will be on. And while I am interested in refugees in Pakistan, I want to tell you something, we have got some refugees in the United States, but the press are just plain not interested. We finally got one man to come in here. I am not picking on any one man, but I cannot get any national interest. I am planning on some way, somehow, calling together the farm leaders. I don't know whether we will have to picket the newspaper offices or what we are going to do, but there has got to be something done to get some interest in what this country is all about.

Now, the price of corn went down 2 more cents yesterday in the Midwest.

Governor, look what happens when the stock market drops a few points. They have a headline as big as if it were a declaration of war, "Market Drops Five Points," or two points. Corn prices have gone down from almost $1.40 down to 96 cents. That is bankruptcy. And I will bet my life right now, and give up my whole career and all my savings, if you can find one line in any of these eastern newspapers about it. They just don't understand it, and they can't spell farmer, f-a-r-m-e-r.

I am going to be on TV Sunday, and if I can just get somebody to ask me a question, I am going to explode, and every damned tube in the country will go on.

You can't do anything. You get some banker that loses 50 bucks, and they have it on the front page. Or if the automobile prices drop—that would be news which I would be for. Or if the Giant Food store has a drop in profits by 1 percent it is all over the Washington Post. But we can have a drop in cattle and hogs and poultry and nobody seems to care. My God, take the farmers who are producing oats, they would have been better off if they had never planted them.

I had better not say any more, or I will get in trouble. But I know what I am thinking. I am glad somebody can't read by mind.

Mr. TIEMANN. You won't get in trouble in talking to us.

Mr. BREATHITT. You sound like the lady that was in the barbershop with a little boy when I was in there. And she said, "Governor Breathitt, I am glad to see you doing something that amounts to something. But there is one thing about it, you are not doing much good, because our corn price hasn't gone up any."

Senator HUMPHREY. Go ahead.

Mr. BREATHITT. For the very reasons alone that you have pointed out, I think it is imperative that the Congress adopt the farm credit legislation which has been introduced by Senator Herman E. Talmadge, the chairman of the Senate Agriculture Committee. And I hope it will be adopted without further dilution.

You might ask, if present Federal programs and policies are not working, then what should be done?

Again I say, you must stop talking about that national balanced growth and begin to do something with it, and take a look at what has been done in the past to stimulate economic development in rural areas, such as waterway development, or reclamation projects. They worked. And they stimulated development where there was none before. And they were among the few federation actions planned and executed on the basis of cost-benefit ratio.

The Federal Government is a large employer of hundreds of thousands of people, who take home hundreds of thousands of paychecks. But where are our Federal facilities located? At one time they were in the central cities, and in Washington. But now the Government doesn't even have the courage to leave its jobs in the central cities. It is moving them out to the suburbs, following the trend of private business.

And where is the U.S. Department of Agriculture located? Is it in a rural area?

How long has it been since the Assistant Secretary for Rural Development spent a protracted period of time in the portion of the Nation he seeks to improve?

Is the Bureau of Indian Affairs located where the Indians are?

Is the Small Community Section of the Department of Housing and Urban Development located anywhere near a small community that is not directly affected by some of the profits?

Even the regional offices of the departments which are totally concerned with rural development are smack dab in the middle of hundreds of thousands of people who have forgotten the rural people left behind.

Obviously much can be done to stimulate economic development in existing rural growth centers if the Government would adjust its policy of locating Federal facilities, so that they are closer to the people they serve.

Now, title IX of last year's farm bill I think is an excellent beginning in this regard. But it must be implemented.

Each year the Government spends millions and millions of dollars for many kinds of research and development. But where does the money go? It goes to the Harvards and the MIT's and the Berkeleys. And it might be argued—and I heard this argument as Governor when we were trying to get some money for research and development—they said, yes, but these institutions are producing our Nobel Prize winners. Senator, I simply ask if the Nobel Prize winners aren't there because the Federal R. & D. money is there.

Senator **Humphrey**. That is exactly what happened. We conducted hearings in the Government Operations Committee with Senator Lausche, the former Senator from Ohio, and myself. And we traced the use of the Federal dollar, we tracked it right down. And what happened? If you put up enough money for a place, then you start to attract the most impressive, the most capable, talented, gifted people. And then the argument comes, look, we have the best scientists, we have the Nobel Prize winner. Therefore you must give us the money. So then you give some more money. And then they get another Nobel Prize winner. That is exactly what happened. And the classic example of this is in Berkeley, and in Cal Tech, where the Federal Government—MIT, is another one—where the Federal Government poured in huge amounts of research money. And the talent follows the money. I have often said, if you take enough money and put it out to the University of South Dakota at Vermillion—going back to my native State—if you give them enough money out there, or at the State University at Brooking, S.D., where they have got a good engineering school and a good pharmacy school, they will get Nobel Prize winners, they will come there to do that research, no doubt about it. And I want to say that we didn't make much progress, but we got out a good report. We had the evidence. We convicted them, but we couldn't hang them. Go ahead.

Mr. **Breathitt**. Senator, I think if we can try some of that money at the University of South Dakota, or Minnesota, or Nebraska, or Kentucky, we will certainly attract them.

And we have seen that happen. The Council of State Governments is now at Lexington, Ky. And the very bright people working with them and working with the States and the Governors are there, whereas they used to be at the University of Chicago.

The Federal Government is certainly one of our great consumers of goods. And they have a tremendous number of employees.

And I think if Federal resources can bring talent into local communities and into our rural States, it will be tremendously important.

I will give you an example. We developed a community college program in our State and in our economic development district. We divided the State into 15 districts. When I became Governor there were 27 different types of area development organizations. The county judge or the local community leaders didn't know which meeting they were attending. And as a result, we have organized 15 districts, we have a community college located in each district, or in the process of being located there, as a center for talent and leadership. And there is money being spent there. And they are having young people come in for youth orchestras in the summer, and they have art programs and cultural enrichment programs, and their lives are being broadened. If the Federal Government would do what we are doing, and I know the other States are doing, with this sort of investment, instead of spending it at the main university in Lexington, it would provide a center of talent and development and leadership that would serve for the development of all these areas. Just the same as when we have an industrial park—and these community colleges help us in developing our industrial parks. It also makes it more attractive for an industry to locate there, when you have a community college that has these advantages. The same reasoning I think can be applied to the expenditure of Federal moneys.

I think the President's call for an investment tax credit will do much to stimulate economic development in rural areas. But it is also going to take healthy doses of Government-backed finance and credit to permit low collateral entrepreneurs to get into the action and keep Main Street U.S.A. a busy place.

In some communities there is leadership needed to make surplus development funds available to those who would want to take a chance on the development of rural America. In too many others there are just no surplus funds available even for those towns which would extend themselves to the utmost to generate growth.

Our Federal assistance programs are fine. But what is needed in the countryside is money, investment money that can go directly to work. Manpower programs and other similar forms of Federal assistance can only supplement this basic need.

I remember when I was Governor, we had a great program to expand our vocational schools. And we put them all over eastern Kentucky. And by George, all we were doing were training people to move to Cleveland or Chicago and Detroit. We were helping their labor supply. But we found out that before we put our vocational programs in, or at least at the time we did, we had to have a program to furnish jobs and economic opportunities. And we had to have investment capital. And we got hung up time and again, Senator, on just the very thing that you have recognized. And that is the need for adequate investment capital in rural Kentucky. And I can speak from knowledge in Kentucky. And there is no point in moving until we have that fundamental problem solved.

And for these reasons the Coalition for Rural America will support measures like these we discussed here today to improve the availability of credit and financing in rural areas for nonagricultural enterprises, public facilities, and housing, as well as agriculture. The need is there. It is not being met.

All of us from rural America, or who are vitally concerned about rural America, owe a tremendous debt of gratitude to you and to Senator Pearson, to this subcommittee and the Senate Committee on Agriculture and Forestry.

I think the future of this country depends on the solution to these problems. And thank goodness there are some people who are in a position to act that are acting.

And you are going to have our total support. And my colleague, Governor Tiemann, and I are here. And we will be here whenever we can be of any assistance.

Senator HUMPHREY. Thank you very much.

By the way, you mentioned the Institute for Rural America, Governor Breathitt.

Mr. BREATHITT. Yes.

Senator HUMPHREY. Do we have the report from the Institute of Rural America? I would like to get it.

Mr. BREATHITT. All right, sir.

Senator HUMPHREY. And then there were a couple of reports you mentioned from the Governors conference. I guess you headed subcommittees of the Governors conference.

Mr. BREATHITT. Yes. One was on natural resources. And we got into many of these problems. The other was on interstate and regional development. But the two committees also got into the total problems of rural development.

Senator HUMPHREY. I just want the record to note my interest in these. We should get them for the purposes of our total record.

The other thing I wanted to mention is, when we started out this subcommittee, I asked our staff to get a copy of the report on rural poverty, and to make a study of it, a staff study, and to see to what extent the recommendations of the 1967 Rural Poverty Commission have, or should I say, have not been implemented. And we are going to have that report and make it available.

It was always my judgment that when the President appointed one of these commissions that the Congress should simultaneously appoint a joint committee to follow what happens to those recommendations—sort of an oversight committee or monitoring group. The President gets a commission's report on violence, or upon rural poverty, or automation, or whatever it would be, like the Kerner Commission report, and all that often happens is that there is merely an in-house look at it by the executive branch. I served a Vice President during the time when a number of these reports were being completed. But there was never anything organized in the Congress to really follow up to see how well these recommendations were being implemented, or to put it another way, to see whether or not those recommendations and observations could be substantiated in terms of the congressional attitude, congressional research, and whether or not those recommendations were being implemented administratively, and what laws were needed to be changed or enacted to implement them legislatively. We have never done that. And I still feel that this is important. I am going to try to get something done about it around here because we have had all these many commission reports, and they have just been filed away. Look at the ones we have had on law enforcement and crime. There are dozens of them. Of course the Judiciary Committee takes a look at them once in a while, but there is never any total follow-through. And our committees of Congress are not structured in a way that you can really take a report and put it in just one committee. You can't put it in the Banking and Currency Committee just because your report on rural poverty deals somewhat with housing. It also deals with education, health, and it deals with jobs. Yet our congressional process remains splintered. What you need is a joint committee which does not necessarily have to have legislative authority, but authority to hold hearings and to back up those recommendations and to try to get action at the congressional and executive level. We are going to do something about that. I want you to know that this study is being reviewed very carefully, and we are going to make an analysis to see what has been done.

Governor Tiemann.

Mr. TIEMANN. Thank you Mr. Chairman, and Senator Pearson.

I couldn't help but reflect on the comments you were making, Senator Humphrey, with regard to an implementation committee to follow up the commission's report. I guess maybe you could call the coalition that we represent, Ned, that type of organization.

Senator HUMPHREY. That is what we hope it is going to be.

Mr. TIEMANN. For rural development.

The procedure we followed during my term in office, after we received a commission report, would be to ask the legislative branch to send over a couple of people, somebody from the executive branch, and they then would develop immediate legislative recommendations based on that commission report, and then I would, as Governor, introduce those measures, so that you didn't have a report gathering dust.

We will most certainly, as a coalition push for the implementation of everything that we can and support those things that we feel are to the best interest of the development of the rural America. And most certainly what Governor Breathitt has called for we do support.

Since the depression, our Federal Establishment has been a government which largely puts its money and effort where the needs are. Today, the needs are in the core cities and in the rural countryside.

These are the areas of our social and economic structure where the so-called "good life" has not yet been adequately infused. I would hope fervently that those who have acquired the new political power rendered to them in State legislatures and in the Congress by the one-man-one-vote decision would not forget that their legislative responsibilities are broader than their own immediate constituencies.

I would hope, for instance, that our new organization could criticize the U.S. Department of Agriculture or any other agency without fear that the department might be censured. I would hope that we could question Federal assistance programs for rural people with confidence that these programs would be changed for the better, rather than be abolished.

As the State and Federal legislative bodies continue to move from their rural to their suburban orientation because of the migration of 30 million people out of rural America, I hope that there will be a continued spirit of cooperation in forwarding the progress of our Nation. There is still far too much to be done. National greatness cannot be derived from pettiness.

At this point I would like to expand on what Governor Breathitt had to say about the Federal influence in rural America.

You will notice that the coalition's immediate legislative objectives are based on the direct infusion of dollars into the rural economic system—the investment or job tax credit, rural credit, and the regional approach toward public works assistance.

Our reasoning is simple enough. Our organization includes a number of former governors on its board. Through sometimes brutal experience, they have learned what works to stimulate economic development.

The indications are that the older approaches may be the best ones.

Before much work had been completed on the Arkansas River Waterway project, Life magazine criticized it as a $2 billion "pork barrel" project. The Tennessee-Tombigbee project got similar criticism.

But these projects were built on the basis of a cost-benefit survey by the Army Engineers; that is, efforts were made to determine how much economic development these programs would stimulate before they were begun.

It would appear that many of the 200 Federal assistance programs established, all or in part for rural people, were established on the basis of guesstimates that this or that program might be a good idea, with no planning beforehand to determine whether they would accomplish anything worthwhile.

The basis for this criticism comes from a report done for the Economic Development Administration by the Center for Political Research. This two-volume report has not had much circulation, and that is a shame, because it is the first attempt that I know of to determine which Federal programs truly influence rural economic development, and which ones do not.

Senator HUMPHREY. What is the name of that report?

Mr. TIEMANN. It is a two-volume report that was done for the Economic Development Administration by the Center for Political Research. And we can furnish this to you, Senator Humphrey.

Senator HUMPHREY. I just want to make note of that. I would like to have somebody get it for us.

Go ahead.

Mr. TIEMANN. The report states that even with substantial modifications of priorities, funding levels and administrative processes, the capabilities of most Federal assistance programs to alter—and particularly reverse—geographic patterns of economic development is extremely limited.

The report concludes that broad economic forces in the private sector are the major determinants of economic trends and decisions, and that many programs are not designed, administered or funded to achieve a significant impact on economic development.

This, I think, is why there is such a clamor today to get the Government down to the local level where the most important decisions have to be made about local destiny.

President Nixon's efforts to get the bureaucracy out of Washington to where the problems are is an important beginning, but it is only a beginning. The question is, will it work? The last three Presidents had similar ambitions, and found that the bureaucracy had in many ways become stronger than the Presidency.

We believe that aid to business investment—including loan guarantees, subsidized plant and equipment, and subsidized loans—has the greatest and most immediate effect of stimulating economic development.

Aid to public facilities and other infrastructure—chiefly direct grants and subsidized loans—is important in removing barriers to further economic development, but as the EDA report concludes, does not appear to stimulate the process initially.

This is not to say that the 200 Federal assistance programs are worthless. That determination, if it comes, will require further study. But we do say that the first steps in rural economic development and national growth determination must be aimed directly at the private sector where the bulk of new development will come from.

The report makes some very sad predictions about the present and continuing course of national development.

It says:

> The employment trends of metropolitan areas will result in higher unemployment rates among non-whites and unskilled workers; the demographic pattern of (metropolitan areas), continuing past trends, will concentrate these impacts within central cities. Substantial sub-employment will be an additional dimension to this central city problem. In sum, the imbalance between job opportunities in the metropoiltan area and the employability of central city residents will worsen.
>
> Non-metropolitan areas will feel the impact of agricultural technology as in the past, but even for those persons who are employed, the long-term trends of small town decline will continue. Only in industrialized states can it be assumed that growth centers will be viable. The very high incidence of poverty in non-metropolitan areas is not reversible, in the absence of substatnial public and private investment. The trend is against such investments by business and non-federal governments.

That is a bleak and brutal conclusion. But it implies that heavy, direct investment by business and governments could change all that.

There does appear to be some hope, but then you get into the assessment of the executive departments' view of their role in the business of influencing national growth, and the overall picture once again becomes bleak.

The Department of Housing and Urban Development regards its programs as supportive of economic development, but the Department does not seek a role in strategy supporting relatively few growth centers, because it would limit the broad base of political support sought for department programs.

The Department of Transportation believes it is providing the infrastructure which is a necessary condition for continuing economic growth. They assume that highway, mass transit, and airport programs are directed toward developmental objectives, but they perceive their programs in terms of improved economic efficiency rather than as developing broad economic trends. In other words, they believe that roads don't create development, but only support it.

Although the Department of Commerce has a good grasp of its potential role in economic development, and the growth center concept, it has little money or other assets to concentrate in these areas.

For instance, no one knows if the title V Commissions could be worthwhile because they were never funded at levels that would allow them to do anything significant.

They know what's going on at the Department of Agriculture, and there are some excellent perceptions within that bureaucracy of what must be done to provide rural renewal. But USDA is involved in an identity crisis. Neither the bureaucrats, nor the policymakers can decide whether the Department ought to be commodity oriented or consumer oriented or committed to total rural development.

There is not much doubt in my mind that the Department should use the talent of its people for the broader approach.

So where does all of this gloom and doom lead us?

As Governor Breathitt said, we are, at this point, only talking about how nice it would be if we had a balanced national growth policy.

But there is significant reason to believe that some things are going right. The report I have been citing says:

> Programs designed to assist business investment appear to have the greatest impact geographically by inducing additional economic activity. This occurs because programs of this type are oriented toward specific objectives, such as small business firms, housing and manufacturing, with sufficient safeguards to minimize the government's and the investor's risk.

Some of the programs of the Farmers Home Administration, SBA, HUD, and EDA are selected as examples here.

As to Federal credit programs, however, the report says there is little evidence that the intricate operations of existing Federal credit operations actively consider their possible impact on community or regional economic development; the Federal Reserve System is concerned with macroeconomics, the farm credit system focuses on agricultural production and marketing, and the two housing credit agencies respond to existing patterns of market demands.

The end conclusion of this important report should make Senators Pearson, Humphrey, and Talmadge quite pleased with the legislation here today. The report says:

> A federal development bank to assure credit for essential state and local government facilities would be a logical extension of existing federal credit mechanisms for housing and agriculture. The Environmental Financing Authority proposed by the Nixon Administration is a limited version of this mechanism. A development bank could assist a growth center strategy by assuring availability of credit for infrastructure investment at critical points in the investment process. This function is not now well served by federal grant and loan programs which are inherently less flexible in timing and distribution of funds.

In another summary section the report says:

> Among direct activities, the greatest potential would appear to rest in federally sponsored credit programs and direct provision of infrastructure. A self-liquidating federal development bank to assure credit for essential state and local government facilities would be a logical extension of existing credit mechanisms.

And importantly, the report stresses the importance of regional or multicounty planning and devolpoment.

I would pause here for a moment and hope that after I have concluded, which will be very shortly, we could talk about some specifics in the way of making available credit not only to the rural businessman but also to the agricultural sectors, amendments which could logically be considered here.

I think, Mr. Chairman, I understand that neither you nor Senator Pearson see your legislation as an end-all; and that you expect it to be improved as it makes its way through the legislative process.

It may require certain improvements in language, but there is a definite need for your legislation.

A rural development bank, or whatever label you want to put on making rural credit available is essential to the future of rural America, and most important, to any national program of balanced national growth.

For those interested, the report I have been citing is the final report on "Federal Activities Affecting Location of Economic Development." It comes in two volumes, and it was prepared for EDA by the Center for Political Research. For some reason, EDA has chosen not to give widespread distribution to the report. I am prepared, if you wish, to provide segments of the report for the record which show the effectiveness of certain Federal programs on local economic development.

Thank you for giving us this opportunity.

Senator HUMPHREY. This is excellent testimony, Governor.

I want to thank both of you very much. And I feel that you have not only hit the problem, but have given us some insight as to what we might do.

Let's talk a little bit about what you have indicated regarding some specifics.

Mr. TIEMANN. It occurs to me that the general thrust of the bill has to do with provisions of credit, principally for the rural businessman. It would occur to me that—and I speak now as having spent nearly 15 years as a rural banker—that there is sufficient credit available presently for agricultural operators for operational purposes. There is not a sufficient amount of credit available when it comes to capital improvement. I am talking now about irrigation systems, buildings, land renovation, grain storage. Here what we have to have is a vehicle which would provide the linkage between the money markets and the rural areas. And this bill could well be that vehicle. I don't think that we have tapped enough of the funds in the private sector that could be funneled into those rural areas.

As an example, if we had some type of a security that could be issued that banks could buy or banks could originate or private investors could purchase, Government guaranteed, tax exempt, that security could become part of the bank's investment portfolio and not part of the loan portfolio. Then the banks could utilize their funds in long term low interest loans, rather than being a part of loan portfolio which of course would shorten the maturity. Right now a tenant farmer—following Governor Breathitt, even on a dryland farm, can't find enough money around unless he inherited it to get started. And if you irrigate it is doubly expensive. In our area, as in all agricultural producing areas, if we are to continue our food producing capability we have got to irrigate more land. And we have somehow got to stabilize agricultural production.

As I indicated in the hearings you had in February, if we lose our ability to produce food, this Nation will be in bad shape. You can talk about grand strategy and the great American dream, but they will simply vanish if we lose our ability to produce food.

Now, people may argue and say, we want a differential in the tax incentive, tax investment credit to those companies that are willing to go into the rural areas to provide jobs, or that we are coddling inefficiencies. But, Mr. Chairman, we are at a critical point here. We have this great outmigration of our people from our farmland, and from the farm areas. And Senator, Governor Breathitt touched on a point. In the years ahead we may not have anybody that knows how to farm any more except a giant corporation. And then if we want to talk about the price of food going high—we haven't seen anything yet.

It would seem to me that with some rather central amendments to this language, that the pattern or concepts such as that which I have described might well solve this thing I talked about.

Senator HUMPHREY. In other words, for our present farm credit structure, you have your FHA, which is, as we often term it, the more socially oriented soft loan. And you have your Federal Land Bank. And then you have your FHA operating loans. And you have your PCA, which is really a source of short-term loans. And you have your Bank for Cooperatives, which is for the purposes of marketing and distribution. But we are inadequately financed. We are speaking now strictly of farm producers, when it comes to capital outlay, for the kind of farming that we have today, which is much more sophisticated and more expensive. I think we will just note this, and check into it very carefully.

Mr. Baker, we want to check into that very carefully.

Mr. Baker is our consultant on this matter.

And we will look into the financing and capital structure of working farms.

Do you have any comment on that, John.

Mr. BAKER (consultant to the subcommittee). How much of this would be taken care of in the revised and recodified Farm Credit Act of 1971, is one question.

The other is, you may be addressing part of your question to the upper limit on size of real estate loans on account of legislative restrictions in the Farmers Home Administration Act. The witnesses yesterday testified that it was much too low for modern farming.

Mr. TIEMANN. I think this is quite true.

Secondarily, discussing the financing of an irrigation system, for example, unless you have got some clear land to put up as security you simply can't get a loan from the Federal Land Bank or anybody else. There isn't any way in the world that a young farmer that may be an equity landowner can get a loan together on that irrigation business. If he is a tenant farmer he can't do it at all, he simply doesn't have the security. The commission lender won't give it to him, the FHA can't do it, and the PCA won't, because they are operating loans. And the Federal Land Bank can't, because there is no security involved.

Mr. BAKER. Mr. Chairman, as you pointed out yesterday, it is perfectly clear that the needs that Governor Tiemann is talking about, plus the regular farm operating and the larger development loans of the kind you are talking about, are eligible under 2223. If they are not clearly eligible, we ought to work up some specific provisions to make them so.

Senator **Humphrey**. What we are saying here in substance is that we will examine what we now have on the books in terms of capital loans, and farm purchase loans, and farm improvement loans, and see whether the present law under the revised farm credit administration program that we just passed through the Congress, is adequate. And second, we will take a look at the bills that we have before us in this committee now, the S. 2223, and then the Pearson bill, take a look to see what that language has in it, and we will make the changes that are necessary. That is what we have got to do.

I think that we ought to examine very carefully the whole structure of the farm loans in the light of what we said yesterday, what will be the demands for financing agriculture 5 to 10 years from now. And these land prices are going to go up. Obviously, no matter what kind of wage-price freeze you have in the foreseeable future, or whatever kind of controls, machinery costs are going to go up, and labor costs are going to go up, this is inevitable. And if you have that happen, you have got to have a related credit structure. I guess that is the best way to put it. And we will check it out and see what we can get.

And we appreciate any other advice that you can give us on it. In fact, after we checked it out I would suggest that we get back to Governor Tiemann and see whether it seems to make any sense in it. I have had a lot of experience in this, and we are going to put you to work, free.

Mr. **Tiemann**. As Ned says, we have got to do something with former Governors.

Senator **Humphrey**. Senator Pearson, you are here not only as a welcome guest, but also as a working Senator. So if you have any comment you would like to make with reference to this testimony, or any questions, I certainly want to welcome you to the committee.

Senator **Pearson**. I thank you for your invitation, Mr. Chairman. I don't think that we need any further evidence of the interest in this general subject, except that I would like to report to you that on Thursday and Friday of last week my office in cooperation with Kansas State University held two meetings. One of them was in Hays, Kans., Mr. Chairman. That is out in the western part of the State. And the other was in Topeka. And we knew there was a good deal of interest in this. But 500 people attended the conference in Hays and 400 showed up the next day at Topeka. And they endorsed, they talked about, and they developed the same theme that you both developed today, the lack of credit. All of these concepts really involve more than poverty programs. There are capital investment projects in the rural communities that could stand on their own feet without any qualification, if there was any money out there.

And may I just comment on one other aspect of what Governor Tiemann said. I find that fear and apprehension that always exists with legislation pending among the rural bankers in Kansas relative to these bills. Are you running into the same sort of apprehension? And if we worked in that added recommendation as to loans for farming I am afraid we would accentuate that.

Mr. **Tiemann.** I don't think so, Senator Pearson.

Senator **Pearson.** I am talking about the practical politics of passing the bill now.

Mr. **Tiemann.** I understand. I have visited several bankers prior to your coming out to Nebraska, and their comments were strongly in line with what Senator Pearson said. They said, there is plenty of credit available right now, but what they were talking about was operating loan credit. I agree with this. But what I am talking about is money for capital improvement. And that money simply is not available, and every commercial banker will agree to that. But I think if it is spelled out very clearly that this is in fact the case, that you probably won't get but normal apprehension when the Government may lay its heavy hand on the banker again. They are pretty sensitive now because they are pretty well regulated. And the only time that there is a possibility or the specter of another regulation being added on they get a little bit jumpy.

Mr. **Breathitt.** That might be one service that our coalition can render, Senator, to have our members and our officers and directors visit with the bankers and discuss it with them so that they feel a part and involvement in the development of amendments that might be made to this legislation, and perhaps remove the major objections that they have to it, and have them as willing partners in this effort, and support us.

Senator **Pearson.** I think it is an educational process, that always there is apprehension of anything new.

Senator **Humphrey.** Senator, we are asking representatives of respective banking groups to meet with our staff to try to iron out as many of the difficulties or prospective problems as can be anticipated so we can come to a meeting of the minds as to how this program will work. We are not in the business of trying to compete with private finance. We are trying to augment the availability of private capital. It is sort of like love. There isn't too much of it around, so you just need a little more.

Senator **Pearson.** I think it would be helpful.

Senator **Humphrey.** I come from a small town basically, even though I later moved to a big town, Minneapolis. But my roots are basically in a small town in Minnesota, and it doesn't do much good to have a bank there if everybody goes broke. It is an uphill fight. And the best way to get a good bank going is to have a lot of business going in town. If you have 200 or 300 employees in a shop, and you have a farm out there where a young man 35 years of age who can buy it and he can get a loan to help pay for it and be able to operate a productive farm, then that affords the possibility of depositing some money in the bank. That is what it is all about. And sometimes I think we are all so worried that somebody is going to take our piece of pie. My theory in life is, make bigger pies, get more people in the act. I never worried about an extra drugstore coming into Huron, S. Dak., as long as we had people working at the shops or at the packing plant, or down at the railroad or the trucking company. But it is when the employees started to leave town and another store came in that bothered us. As long as they are coming in and they have those checks and that income, everybody gets a little hunk of it.

And as far as the Government is concerned, they have the best system in the world. It is called withholding. And I have talked to a lot of folks about getting people at work and how much it costs to put them to work. I said, it doesn't cost anything to put a person to work, but it costs an awful lot when people aren't at work. Because, if you get people to work you have a little salami machine called withholding, and it cuts everybody. Of course you get it back. But on welfare you have no such machine, you have just a disposal unit that just grinds it up and destroys it.

And many people have the economy all mixed up. All the people I have ever known that made money, went into debt to make money. The problem with me was that I was in a depression and was afraid to go into debt. My wife had to beat me over the head to make me get the first mortgage on the house. All I can remember is seeing my father in debt. But the people that really make money never make it from working. I learned that from dad. You make it big by investing and getting other people to work for you.

Mr. TIEMANN. The day after President Nixon's economic policy speech the stock market went up almost 33 points. But I had a stock that went down that day. So you had better be careful what you invest in, too.

Senator HUMPHREY. That is right.

Senator PEARSON. When I got out of law school the only job that I could find were with the great big firms in the great big cities, and I didn't want that. So I got out Martindale Hubbel and I tried to find a community where there weren't any lawyers. I found some, but there wasn't any law business there either. So I backtracked and went into a community where there were a lot of lawyers, and there was a lot of law business.

Senator HUMPHREY. Gentlemen, we thank you very, very much. And I want to thank the coalition. Any time you can get hold of an educator, publisher, or TV commentator, get him in a dark room and work him over here. We can't get any interest in this outside of McCook, Nebr.

Mr. TIEMANN. I should say for the record that the coalition has attracted nationwide interest. People have expressed interest in just the meeting that you attended here.

Senator HUMPHREY. That was a very good beginning for us.

Mr. TIEMANN. Yes. And we appreciate your giving us this opportunity.

Senator HUMPHREY. Next is Mr. Robert D. Partridge, general manager, and Mr. William E. Murray, legislative representative of the National Rural Electric Cooperative Association.

We thank you very much for coming to us this morning.

STATEMENT OF ROBERT D. PARTRIDGE, GENERAL MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. PARTRIDGE. Mr. Chairman and members of the subcommittees: My name is Robert D. Partridge. I am general manager of the National Rural Electric Cooperative Association.

Senator JORDAN. Mr. Chairman, I just want to make an appearance, as I have to go to another meeting.

Senator Humphrey. All I can say is, to get your important blessing here is like having fresh troops come into the fray.

Senator Jordan. My powder is dry, and I am ready to shoot any time.

Senator Humphrey. Thank you, Senator Jordan.

Go ahead.

Mr. Partridge. Gentlemen with me to my right is William E. Murray, our specialist in rural development legislation.

The National Rural Electric Cooperative Association is the national service organization of 988 rural electric systems operating in 46 States. These systems bring central station electricity to 24 million farm and rural people. Their lines serve in 2,600 of the Nation's 3,100 counties, an area constituting approximately 70 percent of continental United States. We appreciate this opportunity to express our views on S. 2223.

Since their inception, and particularly during the past decade, the Nation's rural electric systems have been actively supporting programs aimed at improving the economy and quality of life in rural areas so as to stem the migration of displaced farmers and rural people to urban centers. Rural electrification, in itself, has made significant contributions to the economy of rural areas by helping to create thousands of new job opportunities and also has helped substantially to raise living standards. Were it not for the rural electrification program, there would be little or no hope of revitalizing rural areas which many of us consider essential to achieving balanced national growth.

In our opinion, nothing short of a massive, nationwide effort can halt the decline of rural America and the resultant migration from the countryside to the cities. While a number of Federal programs have been established with the objective of revitalizing rural communities, the overall thrust in rural development so far has been characterized by insufficient funding in comparison to the needs and by a considerable amount of overlap, fragmentation and lack of coordination because of the multiplication of agencies dealing with rural development.

We believe S. 2223 could make available a vast amount of financing which will be required to accomplish the kind of sound rural-urban balance which Congress committed itself to in title IX of the Farm Act of 1970, and mainly from private sources. Based on past experiences, we do not think it is likely that the executive branch would request or the Congress would approve the billions of dollars required in direct appropriations. In addition, the legislation puts together a complete tool kit with assistance for practically every facet of community development. Nothing less than the kind of massive, comprehensive approach as contained in S. 2223 has any real chance of halting the deterioration of small towns and relieving the crushing burdens on our cities from the rural population flowing into them.

The migration of over 30 million rural people, of whom 20 million were farmers, since 1940, is, of course, one of the basic reasons for the serious population imbalance which members of this subcommittee and other Members of Congress recognize as one of the most serious domestic problems facing the Nation. Unless we can find a solution to it, much of rural America will be reduced to a depopulated wasteland and most of our great cities will be rendered unmanageable.

Still, the migration from country to city continues. The 1970 census shows that about as many counties—approximately 1,500—lost population in the 1960's as did in the 1950's. One eminent demographer points to the high fertility rate and the large number of young people in many economically depressed areas as indications of the large potential for future rural to urban migration.

The predictions are that there will be another 100 million U.S. citizens by the year 2000 or shortly thereafter, and that 70 percent of them will reside in 12 metropolitan areas and that about 50 percent of the population will live in three giant strip cities. However, we do not have to wait until 2000 A.D. to see the consequences of this kind of population concentration. We read about them day after day in the pages of our daily newspapers. Pollution, violence, bad housing, traffic jams, expanding welfare rolls, and the human misery of every kind are the clearly apparent manifestations of overcrowding in the cities.

While the outmigration has slowed somewhat in recent years, it continues at a considerable rate. This is bad for the Nation as a whole and it should be stopped. We do not see it as a matter of forcing people to remain in rural areas or forcing people who now reside in the cities to relocate. Recent public opinion polls indicate that most Americans would prefer to live in rural areas or small towns.

We think it is a fair assumption that most people now in rural areas would want to stay, and that millions of city people would want to return provided—and this is the key to where people live, it seems to us—that there are opportunities to make a decent living along with modern community facilities and services. These are the things which the legislation before this subcommittee would assist in supplying. That is why our association and its membership, in resolutions over the past years, have supported this type of legislation which seeks to rebuild rural America.

Moreover, our association and its member systems have urged for a long time that the highest priority be given to solving the grave imbalance between urban and rural America.

Last year at their annual meeting the membership of our association adopted a resolution which emphasized the importance of a sound rural-urban balance. The resolution noted:

> The future health and prosperity of the Nation depends upon the solution of the imbalance between rural and urban America. There can be no lasting solution to this imbalance unless social and economic opportunities in rural America are sufficient to not only halt the outmigration to the cities but to reverse it as well . . .

The legislation before this subcommittee has as one of its main purposes the achievement of a better population distribution, terming it "essential to the prosperity, general welfare and domestic tranquility of the urban as well as the rural communities of the United States." It also calls for a "more general, better-balanced geographic distribution of profitable private economic enterprises, income earning opportunities, and high-quality public community facilities, services and public works" as necessary to reverse the population flow from rural to urban areas.

S. 2223 is one of the boldest, most imaginative pieces of rural development legislation ever proposed. We support its concept and, as previously mentioned, believe that it can provide the board, massive assistance necessary to produce successful, comprehensive rural development.

As to some of the specific details of S. 2223, we have not as yet had the opportunity to get the reaction of our membership. In regard to title I, the only significant feature of it on which we have to reserve endorsement is the provision for increasing from 5,500 to 35,000 the population limit of communities eligible for Farmers Home Administration assistance.

We have, before this subcommittee and the House Agriculture Committee, recommended that areas eligible for Farmers Home assistance for water and sewer programs be increased from 5,500 to 10,000 so as to be consistent with the authority Congress gave that agency last year to make housing loans in rural areas up to 10,000 population.

We might add that last year when the matter of increasing the limit to 10,000 for the housing loan program was before Congress, there was a division among our membership, for and against. A number of our members felt that this would dilute the scarce housing funds with the smaller towns receiving less assistance. However, since Congress did see fit to increase the limit for housing, and since water and sewer are so necessary to developing rural housing on a large scale, it seems only logical and practical that both programs should operate in the same areas. We would strongly advocate, however, that the funding levels of these programs be increased commensurately with the additional demand which will be put on them.

We would recommend that there be assurances that communities below the 5,500 limit will receive adequate assistance. These generally are the rural communities which have the greatest difficulty in obtaining funding for projects. If such assurance could be included in the legislation, we believe it would largely satisfy the fears of our members that funds would be siphoned off from places under 5,500 to meet the demands of larger communities.

In regard to title II, we would have the same reservations as to the 35,000 population limit. We really will not know the feeling of our members on this until our next annual meeting, which doesn't come until February. In addition, title II contains a great many technical details and complexities which we will not be in a position to commit our membership to until they have had a chance to study them in more detail and to give us their views.

I shall ask Mr. Murray, who specializes in rural development legislation, to present NRECA's recommendations in regard to S. 2223. These recommendations are made in the spirit of improving the legislation now being considered by the subcommittee.

Senator HUMPHREY. All right, Mr. Murray.

STATEMENT OF WILLIAM E. MURRAY, LEGISLATIVE REPRESENTATIVE, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. MURRAY. Thank you, Mr. Chairman.

For the record, Mr. Chairman, I am William E. Murray, legislative representative for rural area development of the National Rural Electric Cooperative Association.

As Mr. Bob Partridge pointed out, NRECA supports the concept proposed in S. 2223. In our judgment, it is consistent with the concept in a resolution adopted unanimously by our membership at its 1971 annual meeting, which called for an expansion of the Department of Agriculture's capability in rural development to enable it to undertake a comprehensive, nationwide development program.

We previously submitted a copy of this resolution to the committee.

Senator HUMPHREY. Yes; we have that.

Mr. MURRAY. As we previously testified 3 months ago before this subcommittee on the questions of the administration's proposals relating to reorganization of the Department of Agriculture and to special rural revenue sharing, it seems to us much more practical to build on the present extensive development capability of the Department rather than to dismember the Department and distribute its agencies among a number of superdepartments which would be concerned primarily with urban problems.

The resolution referred to recommends that the Senate and House Agriculture Committees supply the Department with the additional authorities that would be required for it to undertake nationwide, comprehensive rural development as well as expansion of a considerable number of existing authorities which it has for this purpose, and provide the changes or innovations in existing USDA structure that will be necessary to successfully implement the effort.

In our opinion, this is the approach S. 2223 seeks to take. It would bolster the Department of Agriculture's existing rural development components, such as financing for housing, community, and recreational facilities and farming.

In addition, it would supply important "missing" components such as the authority to finance job-creating enterprises along with practically an unlimited number of other kinds of projects and services so essential to successful rural revitalization. And the structural changes included in S. 2223 also seem to make good sense to us.

By dividing the functions of the Farmers Home Administration into rural development—under the Rural Enterprise and Community Development Administration—and the farm loan functions—under the Farm Development Administration—all under the direction of an Assistant Secretary for Agriculture, Rural Development Credit, we believe that both the farm and nonfarm segments would benefit to a much greater extent than is possible at present.

These innovations closely approximate the recommendation in this regard which we made to this subcommittee on June 16. At that time we also recommended that the Department's name be changed to more clearly reflect the mission and responsibility for a nationwide rural development program which S. 2223 implicitly assigns to the USDA. We suggested as possibilities the "Department of Agriculture and Rural Development" or the "Department of Rural Development."

Senator HUMPHREY. At this point I want to make a note of the importance of that suggestion and I am going to introduce a bill that will try to get this done. But I think the emphasis that we had all through the testimony relates to what you might call "the new dimension in rural America" called rural development, without downgrading the importance of our commodity programs and our farm operating loans and the storage programs and everything that relates to agriculture, because when you really get down to it there won't be any rural development if you have farmers going bankrupt. You have to have some rural prosperity.

I like that idea of the Department of Agriculture and Rural Development, just like we have the Department of Housing and Urban Development, there would be a Department of Agriculture and Rural Development. I think that covers both of the fronts that we are talking about, rather than dismember the Department—which will never happen, it is not going to happen around here at least. We should be trying to strengthen the Department and infuse it with the kind of talent and sort of mental attitude that lends itself to a rural development.

I think the one problem we had with the Department of Agriculture was that it has been overwhelmingly a commodity-oriented Department over the years including clear back to the Roosevelt period. It traditionally has not given enough consideration to the other rural aspects of rural life on the total living environment of people living on the farms and in the smaller towns.

I like your suggestion and I want you to get your people all ready for that, because I think it is something we should do. I think we will need to find a lot of support here in this city for this.

Mr. **Murray**. We will be very pleased to do that. I think Governor Tiemann also pointed out that the Department of Agriculture has an identity problem.

Senator **Humphrey**. Yes. I think that is very true. And the Department gets pushed around; with the many forces that are at work today it is having a problem as to whether it is commodity-oriented, consumer-oriented, or development-oriented. And it seems to me that if you have "rural development" as its mandate, you should at least be able to cover most of those problems. This of course would require us to reorganize the Department.

Go ahead.

Mr. **Murray**. Mr. Chairman, both you and the chairman of the full committee, Senator Talmadge, have stated that you feel that the bill can be improved and that you are desirous of receiving suggestions to this end. We have some recommendations which we believe will strengthen S. 2223, and we hope the subcommittee will give them consideration. Some of these recommendations are technical, but nevertheless extremely important in our view. Others are more general.

One of the reasons that rural development efforts have been less successful than they might have been is that no one agency or department has been given the primary role of leadership. The official assignment to the Department of Agriculture of the rural development "mission" and responsibility for coordination of the efforts of other Federal, State, and local agencies should be made explicit in the legislation. I don't think there is any question that the legislation implies that the Department is to assume this responsibility.

Senator **Humphrey**. We might be able to spell that out, too, Mr. Murray. We introduced an appropriate resolution for changing the Department's name to delineate what we mean by that change rather than just to change the name. We could do it in both places. I think it is very important.

Mr. **Murray.** We would recommend that rural development goals be established.

In our opinion these would serve a very useful purpose by establishing the dimensions of the task to which this legislation is addressed, and also by permitting this subcommittee, other members of the Congress, and the public to measure the progress being made.

I think an example of the importance of goals can be seen in the Housing Act of 1968. The goals established there had a great impact on moving the housing programs at a much more rapid rate, and we have something to measure against each year.

We would also recommend that the Rural Enterprise and Community Development Administration be authorized to participate in loans and grants with other Federal, State, and private lending agencies.

This could increase the impact of all Federal, State, and private agencies which are presently engaged in providing financial assistance for rural development. Such authority could also be of great benefit to the banking system established under title II. This authority may presently exist by virtue of legal interpretation, but in our opinion it should be clearly spelled out.

Senator **Humphrey.** Would you be kind enough to spell out for us in specific language what we ought to do on that.

And again I am going to say to you, as I have to other witnesses, that when you come to these practical suggestions I want you to follow through with our staff here. We have all the members of the staff present for the hearings as well as staff members of the other Senators that are keenly interested in this legislation and we would like to get your specific suggestion. Mr. Baker is here, and you can work with him and Mr. Thornton is here, and Mr. McLeod, and you can work with them, or any of the men that we have here, to try to work out the language, so that we can get it up before the members of the committee for review again.

Mr. **Murray.** We would be very happy to do that.

We would also recommend that the Rural Enterprise and Community Development Administration be authorized to fund nonmetropolitan planning districts, including funding for employing permanent staff.

Although the Department of Housing and Urban Development was authorized in the 1968 Housing Act to fund these and other rural planning organizations, the results to date have been meager. HUD has only been able to supply grants to a relatively few districts and in amounts too small to enable the districts to effectively perform the functions for which they were established. Moreover, without adequate funding it is difficult to understand how these organizations could perform the functions assigned to them under title II.

Senator **Humphrey.** There again it may be that we can peel off that part of the HUD authorization in the 1968 Housing Act and consolidate the funds for rural planning organizations, such as your multicounty units and so on, over in this Department of Agriculture area, to kind of give it better lines of direction and more concise perimeters in which we work.

Mr. **Murray.** We have another recommendation which goes into that as well as how the money might be raised.

Senator Humphrey. Again I want you, in each of these recommendations, if I may say so, to sit down with the appropriate people here on our staff, make an appointment and develop some suggested language. We will then ask the staff to bring that back to the members of the committee and discuss it.

Mr. Murray. Recommendation No. 5 deals with the need for a capability in research and development which we think the Rural Enterprise and Community Development Administration should have. This has been a tremendous void, particularly in fields of water, sewer, housing, and industrial development. The Farmers Home has the assignment to provide rural housing but it has no capability to develop better kinds of housing and to investigate the general dimensions of the problem.

Senator Humphrey. And the standards.

Mr. Murray. That is right.

Senator Humphrey. You see, the requirements for housing in a metropolitan area as compared to a specific rural area can be very different, and possibly ought to be very different.

Mr. Murray. We are running into the problem where, in many States you can't build more than a certain number of houses without central sewage disposal systems. For instance, in Ohio now you can't build more than 10 houses without a central sewage system. This is a good provision but how do you provide a sewer system that doesn't make the house so expensive that the people can't afford it? There must be ways of doing this and I think we need some research to find them.

No. 6 is a recommendation to eliminate the $300 million construction grant ceiling. This amount is approximately what is required annually at present for a realistic rural water and sewer program. A Farmers Home Administration survey sets the price tag of approximately $12 billion for rural water and sewer needs. With the expansion of the grant authority to include the other kinds of development projects enumerated in title I, $300 million would be far from adequate. We think it would be better to take the limit off entirely.

Senator Humphrey. To take it off and just leave it open in the light of what appropriations you can get?

Mr. Murray. That is right because you are going to need all of the $300 million if you are going to put in the kind of a sewer and water program that is needed, and that would leave nothing for the other programs.

No. 7 would be the elimination of the $15 million planning grant ceiling in the Consolidated Farmers Home Administration Act of 1961, section 306(a)(6), and amendment of the paragraph so as to permit grants for other kinds of planning besides water and sewer projects and for funding of nonmetropolitan planning districts as previously discussed.

Senator Humphrey. The metropolitan-type planning?

Mr. Murray. Yes. And this would also be for funding those nonmetropolitan planning districts as previously discussed. It would be up to the Appropriations Committee to decide how much money to provide for this.

HUD is only putting up $2 or $3 million a year for the nonmetro districts right now. So I think we could improve things there.

No. 8 would be to authorize Appropriations Committees to set the level of insured programs.

As Mr. Partridge testified, successful rural development will require billions of dollars in financial assistance and the lack of sufficient funding has been the main reason for the rather slow progress in revitalizing rural communities. While title I could make available financial assistance on the tremendous scale necessary, it will rest with the Administration to determine annually the level of funding for all of the programs under title I since they will be financed through insured loans, not through congressional appropriations. Experience shows that the Administration has not set the level of Farmers Home Administration insured loan programs at realistic levels. Moreover, last January we saw how the Administration, without any consultation with Congress, cut a half billion dollars from the fiscal 1971 insured rural housing loan program. This was approximately a third of the amount ($1.5 billion) which the Administration had previously authorized for rural housing in fiscal 1971. Fortunately, the Administration changed its mind and restored the program to the original level.

We would recommend that language be included in title I authorizing the Appropriations Committees of Congress to set the level of the insured programs under title I. We believe that Congress would be more responsive than the Office of Management and Budget. It would seem to us that if Congress agrees to pass this legislation it would be committing itself to funding it adequately. Incidentally, the Administration requested Congress to assume this responsibility last year in legislation which was then being considered by another subcommittee of the Senate Agriculture Committee.

And so we recommend that the committee agree with the Administration on this point.

Senator HUMPHREY. We will look into that again. Each of these recommendations we will ask you to follow through on.

Mr. MURRAY. We would recommend amending the second sentence of section 306(a)(3) of the Consolidated Farmers Home Administration Act of 1961 to extend from October 1, 1971 to October 1, 1973 the deadline for completion of comprehensive plans required as part of community facilities projects. It is our understanding that a sizable number of rural communities have not as yet completed their comprehensive plans.

Senator HUMPHREY. That is true.

Mr. MURRAY. And if they don't, they will not be eligible for construction grants. We think they should be given more time to do this.

Senator HUMPHREY. I thoroughly agree with that. I think that dateline is no longer relevant to our consideration.

Mr. MURRAY. And number (b) may seem a rather unimportant recommendation, but we think that if you were to talk to county supervisors, you would find that they consider it very significant. The recommendation, is to change the type of bonding now required for Farmers Home Administration employees, who would be employees of the Farm Development Administration and the Rural Enterprise and Community Development Administration, from faithful performance of duties bonds to fidelity bonds.

Present bonding is an inhibiting factor in the delivery of FHA programs, since it holds FHA employees financially liable for losses resulting from procedural errors or errors of inadvertence, as well as losses caused by fraud or dishonesty. Fidelity bonds would protect the Government against losses from fraud or dishonesty, while removing the requirement for imposing fiscal penalties on employees for technical, procedural, or inadvertent errors.

In some cases pensions of county supervisors could be taken away from them and they would suffer very severe financial losses because of some of these errors of inadvertence.

Senator Humphrey. The Federal Housing Administration has that same type of bond?

Mr. Murray. I don't know.

Senator Humphrey. I am told it does.

What is the purpose of that? In my office I have to assume responsibility for my employees. I don't go around fining the employees if something is going wrong. If you are the boss you are in charge. What is this business about holding an employee accountable?

Mr. Murray. They are supposed to perform their duties faithfully. They have all kinds of regulations that they have to follow and if they don't follow one of them then they may be in trouble.

Senator Humphrey. You can fire them, can't you?

Mr. Murray. Yes; they can fire them.

Senator Humphrey. Demoted?

Mr. Murray. We are not talking about dishonesty or fraud. For instance, if a county supervisor forgets to have the fire insurance renewed on a home which he has made a loan on, he could be held responsible.

Senator Humphrey. If there is a fire?

Mr. Murray. If there is a fire. This makes them more cautious than they would be otherwise, because they have this tremendous burden.

Senator Humphrey. I suppose there is a reason for all of that.

I must say that I have hired some people—we had to have fire insurance on our business, but I never held a bookkeeper accountable. What kind of a crazy regulation is that?

Mr. Murray. I would like to know, too.

Senator Humphrey. We would have to look into that. There must be a good reason for it somewhere along the line, or maybe somebody just got angry with someone.

Mr. Murray. Recommendation (c) relates to the extension of programs authorized under the Consolidated Farmers Home Administration Act of 1961 for at least 4 years. The authority for present FHA programs and for those proposed under title I of S. 2223 will expire October 1 of this year unless extended. We understand that the chairman of the full committee has introduced legislation extending the authority and that similar legislation has been introduced in the House. Eight days from now, present community facilities programs of FHA will be out of business unless Congress takes action before the October 1 deadline.

As to (d), provisions of S. 1806, we would suggest that the subcommittee consider including in title I certain provisions of S. 1806 which the Senate has already passed but which the House has not yet begun to consider. Title I apparently assumes that the House will approve S. 1806. If the House does not, however, title I would lack some very important authorities, most significant of which is the increase in the ceiling of the Agricultural Credit Insurance Fund from the present $100 million limit to $500 million. Without such an increase in the ACIF ceiling, it would not be possible to provide the extensive financing for the various rural development purposes under title I. In fact, the $500 million limit approved in S. 1806 might well be increased substantially or eliminated in view of the billions of dollars of financing which will be required to carry out the purposes of title I.

We would point out that the ceiling on the ACIF is not a spending ceiling. It is the limitation on the amount of notes that can be held in the fund at any one time. The present limit is $100 million, which of course is not enough.

The Office of Management and Budget sets the level for the various FMHA insured loan programs, the funds for which are raised by the sale of notes on the private market.

Another significant provision of S. 1806 is the increase in the statutory limit for a water or waste disposal loan from the present $4 million up to $10 million. The existing ceiling could prevent rural water and/or sewer associations from merging since the total amount that can be owed FMHA cannot exceed $4 million.

In addition, it is likely that under the comprehensive rural development authorized by S. 2223, the $4 million often will be inadequate to finance the larger water and sewer systems that will be needed.

Senator HUMPHREY. Where is S. 1806 now?

Mr. MURRAY. It was passed by the Senate.

Senator HUMPHREY. Is it now in committee?

Mr. MURRAY. The House has not started considering it.

Senator HUMPHREY. Isn't that the legislation to extend all these programs?

Mr. MURRAY. It is the legislation to make operating loans insured and to do a number of other things. I think I have a copy of it with me.

Senator HUMPHREY. We will check it out. I just wanted to be sure what the status of it was in the other body, whether there have been hearings.

Mr. MURRAY. It has not come up for hearings. I think its provisions will be included in some other House bills.

Chairman Poage is introducing a bill today and Congressman Purcell introduced a bill last week which contains most of the provisions in S. 1806. It seems to us that if title I is going to be a complete bill it might be better that it doesn't assume that S. 1806 is going to be passed.

Senator HUMPHREY. This is our total farm credit bill; isn't it?

Mr. MURRAY. S. 1806? No; it just goes to these particular points I mentioned plus some others and it makes operating loans insured.

(e) Amendment of section 33 of the Consolidated Farmers Home Administration Act of 1961 so that applications for loans made for the purposes enumerated in title I are not required to be submitted to the FMHA county committee for certification of eligibility. They would have to be submitted in our view, if that amendment isn't included.

This is the same kind of exemption accorded now to FHA community facility loans, soil conservation loans, and emergency loans. I don't think that this subcommittee or our organization feels that there is a necessity for submitting loans for industrial development to the county committees. They serve a very useful purpose, but I don't think that this is one of the things that they would want to be concerned with.

Recommendation No. 10 has to do with additional personnel. In recent years Farmers Home Administration programs have been greatly expanded, particularly in the fields of housing and community facilities. The shortage of personnel is making it extremely difficult for the agency to deliver its existing programs. It is logical to expect that unless it is able to increase its staff by several thousand employees, it will not be able to effectively discharge the additional responsibilities which title I assigns. Thus, in large measure, the successful implementation of this legislation depends on a solution to the problem, and we would urge the subcommittee to do everything in its power to solve this very crucial problem.

Recommendations Relating to title II of S. 2223, known as the "Rural Development Financial Resources Act of 1971."

As Mr. Partridge pointed out, we are not in a position today to comment specifically on the numerous technical details and complexities of title II. Therefore, our comments and recommendations will be of a general nature.

First, the overall concept, as Mr. Partridge mentioned, is something we can fully endorse. Without access to huge amounts of capital, there is little likelihood of revitalizing rural America, which we consider so essential to achieving a sound balance between the countryside and the cities.

It is our observation from reading the legislation that either title I or title II, by themselves, could supply the massive financing necessary for the rural development purposes listed in the legislation. The purposes cited in title I and title II are nearly identical. Thus, either title I or title II, as separate pieces of legislation, have the potential of making possible the kind of massive, comprehensive rural development program that is needed. Title II has the additional advantage, however, of providing for capital augmentation and interest subsidies which are certain to be of basic significance in creating new job opportunities.

While the establishment of a Federal financing institution, as called for in title II, would undoubtedly be of tremendous benefit to rural America and we feel very definitely it is needed, we do wonder whether it would be best to establish at the same time all of the additional machinery, including 10 regional banks and several hundred district lending agencies.

It is possible that the entire banking system could be so overburdened with structure and staff in its early years that its chances of succeeding would be hampered. We would recommend that the committee give this matter very careful study and consider as an alternative having the banking system evolve more gradually, as the needs require.

It is our feeling that title II, in its present form, may have too many restrictions and that because this is a pioneering venture, it might be wisest to make the legislation more flexible. It can always be tightened at a later date.

Title II specifically requires the Farm Credit Administration to perform a number of important functions which undoubtedly would make it necessary for FCA to expand its staff considerably. While this would appear to be a logical and practical arrangement, we do question whether the Farm Credit Administration and its members would agree to taking on these tasks.

During the consideration of recent Farm Credit Administration legislation we observed that a number of its constituents were reluctant to assume new activities. Whether FCA has agreed to taking on the assignments spelled out in title II is something we are not aware of. If FCA has not agreed, then it would be well, it seems to us, to revise the legislation so that alternative sources can provide the services.

In conclusion, we reiterate our feeling that the banking system established by title II may be overstructured and that this could prove detrimental to its growth and success. We would recommend that provisions be made for the system to evolve more gradually in keeping with the needs as experience indicates.

In brief, we suggest that title II be simplified and, in addition, be made more flexible so as to avoid creating any more strictures than absolutely necessary. Redtape has been a primary factor in stifling and slowing down rural development. This legislation should seek to keep the redtape to an absolute minimum.

We congratulate the subcommittee on the efforts it is putting forth in behalf of rural revitalization, as demonstrated by this comprehensive and imaginative legislation.

And, Mr. Chairman, I would like to bring to your attention two resolutions which were passed at recent NRECA regional meetings which Mr. Partridge attended. These resolutions commend this committee, and you in particular, for the tremendous job you are doing on the focusing the Nation's attention on the need for rural development and we all owe you a deep debt of gratitude for your work on behalf of rural America.

Senator HUMPHREY. Thank you.

We will put those in the record here.

(The resolutions referred to follow:)

RESOLUTION ADOPTED AT NRECA REGIONAL MEETINGS, COLUMBUS OHIO, SEPTEMBER 12–14, 1971, AND DES MOINES, IOWA, SEPTEMBER 15–17, 1971

RURAL DEVELOPMENT HEARINGS

Whereas, governmental actions in the field of rural development still are fragmented and inadequate despite the congressional commitment in the Agricultural Act of 1970 to give highest priority to this problem area: now, therefore, be it

Resolved, That we commend the Rural Development Subcommittee of the Senate Agriculture Committee including its chairman, Senator Hubert H. Humphrey, and its members for holding hearings in various parts of the country to determine what government actions are needed; and be it further

Resolved, That we urge the Congress to follow-up promptly on the basis of the Subcommittee's findings with legislation and financing to carry out more aggressively rural development programs.

Senator HUMPHREY. Mr. Murray, may I say that I think your observations in title II can be very helpful to us. I think it would be very helpful to us, because when something like this is too complicated it always raises doubts and questions and causes us more difficulty in getting it enacted. We don't want that to happen. The idea of title II was not to involve it in the affairs of the Farm Credit Administration, except to use FCA for a few functions.

For example: The Governor of the Farm Credit Administration would sit on the board. That is just so that we have a sort of an overall view of all types of credit that are being extended to rural America, and get the benefit of this man's judgment and his experience. We are recommending that the bank examiners of FCA be used so that we wouldn't have to establish another structure of this type.

After all, the Farm Credit Administration has experience in examining its credit facilities.

And third, we would use their salesmen, so to speak, for the purposes of selling securities. Other than that the Farm Credit Administration, doesn't have any other functions to perform.

Therefore, we didn't think we were overburdening them except to ask them, No. 1: To have their governor serve on the board; and second, to have their bank examiners do whatever examination is required; and third, to use their salesmen in selling our securities.

Now, you have the National Board, the Rural Development Credit Board. That is under title II, which establishes the Rural Development Credit System and the regional banks. The purpose of the latter is to give due consideration to regional differences in the country. When we fail to allow for these differences we run into all different kinds of problems. There are many variables in this Nation, particularly when you get into development.

In the case of REA, to be sure, you need electrical energy all across rural America. But when you get into rural development and the kind of industrial development and the kind of community facilities that you need you run into geographical problems, problems of climate, problems of social habits and patterns, and we thought that the regional approach would give more intimate attention to the needs of an area. And, those regional banks would have to be staffed by people who are from the region. You don't reach out and pick out somebody from New York to be a regional board member in Denver, or somebody from Albuquerque to be a regional board member in the Boston or New England area. You try to keep some identity with the region being served.

As far as the others are concerned, they are already established groups. The multicounty financial agencies are already there; they will become part of the multicounty planning groups. And the local banks and the Government units are already there. They are really not new offices. In fact, the idea is—and we may not have spelled it out correctly, which is why we need to review this very carefully—that we would use ongoing, existing offices, rather than to establish a whole new network of offices.

Now, I would suggest that when you get the time that we might want to go over that with the staff and prepare a memorandum on it for the members of the committee. I am sure that the committee would be very interested in your observation to simplify title II to avoid development of a whole system of offices with hundreds of thousands of new employees across the country. That is the last thing I want, I can tell you.

I think that we ought to be pulling things together rather than adding another layer of bureaucracy or banking structure or whatever you wish to call it. So, we will look into that.

I have talked with Mr. Baker while you were mentioning that. We don't want to create a monster here.

Mr. MURRAY. We agree that the arrangement with FCA is a sensible one but we raise the question as to whether FCA wants to do this.

Senator HUMPHREY. You are wondering if FCA really wants to do it?

Mr. MURRAY. Yes. You may need to add an alternative source for these services in case FCA does not want to provide them.

Mr. PARTRIDGE. Farm Credit, as the chairman, I am sure is aware, does have some problems in a couple of districts which have not supported the expansion of the authority to Farm Credit specifically. The Houston and Berkeley Districts have not been in accord.

Senator HUMPHREY. One of the problems that we have with every one of these agencies, once they get established and have made it, they don't want to move into new or other areas. Now, the Farm Credit Administration has been a very successful enterprise. I think one of the reasons that we are somewhat encouraged by this kind of proposal is that these banks pay back, in a relatively short period of time, this investment of primary or initial capital provided out of the Federal Treasury.

We had amazing testimony here yesterday from the Bank of North Dakota, which was established in 1919, which had to be considered obviously as a Communist, Socialist plot at the time. They put in a couple of million dollars of capital and it is paying out this year $7 million alone in profits to the State of North Dakota. It has paid out millions and millions of dollars and of course all the State's capital, or original investment has been repaid. It is kind of hard to lose money in banks unless the country just goes broke; it has that interest that works 24 hours a day.

I want to mention one thing else. You mentioned this research and development—R. & D.—program, that the bank is authorized to do.

Mr. MURRAY. I was speaking of title I.

Senator HUMPHREY. FHA would be authorized to do all that.

Mr. MURRAY. Yes.

Senator HUMPHREY. We have had some comment from the State agricultural experiment stations as to whether they might fit into that picture, and our extension service.

Mr. MURRAY. I think the agency that is responsible for, say, making the loan, whether it is a housing loan or whatever else, ought to have also the authority to run the research program. Now, it is possible they could contract with the State experiment stations to do specific things, and certainly they should if they have this capability. But we have research over at the Department now: ERS, but it really doesn't relate to what kind of housing is best in the rural areas, or physical research that is needed in the housing field. How do we get houses that people can afford? These people make less than $8,000 a year and lots of them make only $5,000. How can we solve the sewer problem? And if we don't solve the waste disposal problem we cannot have much of a housing program?

Senator Humphrey. We have actual testimony on this and there are all kinds of problems with rural housing development which I agree have not been met as yet.

Mr. Murray. We did a little research, a very minor thing, on: How can you step up Farmers Home delivery of its housing program? Now, normally the county supervisor has to interview every loan applicant, and make out a lengthy application. It took him a long time to do it. Our people developed a self-packaging application, where the builder, or Rural Electric, with some instruction from the county supervisor, would get this material for him and save him hours and hours and weeks of time.

Mr. Partridge. Mr. Chairman, on the research and development, the Rural Electrification Administration had for many years a Technical Standards Division, a relatively small division, but it did do work through the Agricultural Research Service, and through the extension service, and through the private sector as well, with manufacturers. Centering, though, in REA's as it did, it did have the responsibility for developing standards for line materials and equipment. And the same thing might be translated over to water and sewer. It was a very, very key factor, we think, in the success of the rural electrification program in reducing costs and standardizing so that equipment and materials, et cetera were the same from one system to the other. The reduction in cost was directly attributable to that work and of course none of these systems that were built are capable of linking to other systems, which is also a tremendous advantage.

The same thing could apply, I am sure, to water and sewer, and as Mr. Murray mentioned, there is additionally the need for research and development in housing. Some of this is being done currently at the State levels. We know in Illinois, for example, the State of Illinois has done a good bit of work in this field, but it has not been specifically related, I think to the needs of rural people.

Mr. Murray. HUD has this capability, and is given money to do this kind of thing.

Senator Humphrey. The financing of rural housing other than FHA is a very serious problem.

Mr. Partridge. Yes; it is.

Senator Humphrey. You can finance a house in the metropolitan suburb and you get a 90-percent loan guarantee. And you go out to a little town 25 or 30 miles from the suburb in the country, and they give you a 60-percent guarantee.

Mr. Partridge. We know this very well.

Senator Humphrey. This is gross discrimination. This is where a governmental policy actually works against urban and rural people. It is contrary to the law. I get so fed up with the Government because it so often violates the law itself. It is all the time putting people in jail because they violate laws but nobody puts anybody in Government in jail because they violate laws.

They have a law on the books that rural housing is the highest priority in the Nation and then they get regulations that absolutely violate the law.

And we have an employment act which says you are supposed to have maximum employment, too, but no one pays any attention to those laws. The one that they like to enforce is the revenue service law and a couple of others.

You really ought to pound away in your journals on this, and I am sure you have.

But, what excuse is there for financing a home in a suburb of a metropolitan area, or a new development. They just get the sheep off the ground, and remove the trees, because that is the first thing they always do: clean out all of the trees; and then you bring on the bulldozers; the bulldozers are against God; they come in and clean out all his works immediately—and then they come in and they finance it at 90 percent. But if you are out 5 miles beyond the new subdivision you get 60-percent financing.

Mr. PARTRIDGE. If you can get it, Mr. Chairman.

Senator HUMPHREY. If you can get it.

Mr. PARTRIDGE. You often cannot. As a matter of fact, we agree completely with the chairman. It is our observation that our housing programs in this country work in the direction of expanding urban sprawl, rather than placing housing, water and sewer and jobs, and so on, out into the open country. This has been our observation and it still is and we are very much concerned about it.

Senator HUMPHREY. I like what you have done here in identifying what we mean by "rural territory." Rural territory is not just the 6 or 8 acres or a thousand acres of farmland; it is that and the rural community, the small town, the small city of rural America. And of course that is where your REA's are fitting into this picture so beautifully.

I think for the purpose of rural electriciation we have to be thinking in terms of not just a line from one farm to another, but when we start to talk about rural development we are talking about a farm and market, farm and community, what you might call a nonmetropolitan community, in the farm areas. And we have had some good comment from some of your members on that as we have traveled around the country. They have been most helpful, I might add.

I have kept you long enough.

Mr. PARTRIDGE. We are appreciative of the time you have given us. We are very much interested in this legislation, and we will look forward to working with the committee and the committee staff as the legislation develops.

Senator HUMPHREY. I want you to know that the reason I occasionally interrupted you with these little outbursts is that I am hopeful that an agency of the Government will read this testimony, but having been downtown for 4 years, I don't expect it.

One of the great disillusioning things in my life was to be sort of a hybrid member of the executive branch. That is why I same back to Congress. I know why Congress is frustrated and angry. They sort of feel downtown that they are sort of stupid up here; that they don't know what we are talking about and some of us are kind of cagey old rascals, you know; we might know how to trip them up a little bit.

Mr. PARTRIDGE. I do think that this legislation, centering as it does in the Department of Agriculture, has full and expanding authority, will go a lot further than anything that has happened thus far to correct some of these problems.

Senator HUMPHREY. Thank you, sir.

(Additional information submitted by the National Rural Electric Cooperative Association is as follows:)

National Rural Electric Cooperative Association,
Washington, D.C., September 29, 1971.

Mr. John Baker,
Subcommittee on Rural Development, Old Senate Office Building, Washington, D.C.

Dear John: In accordance with Senator Humphrey's request, we are submitting specific language for most of the recommendations which we made during our testimony last Thursday, September 23.

Recommendations for Title I:

1. Assurances that communities below 5,500 population will not be disadvantaged because of the increase in the population to 35,000. This provision could perhaps be included in section 105 as additional language in the amendment to section 306(a)(7) of the Consolidated Farmers Home Administration Act of 1961.

2. Change name of the Department of Agriculture to "Department of Agriculture and Rural Development." This could be included in Title I, or offered as a separate bill.

3. Assign mission for comprehensive, nationwide rural area development to the Department of Agriculture and the responsibility for coordination with other federal agencies and with state and local organizations. This could be either a simple statement to the effect that the Department of Agriculture is assigned the mission and responsibility for coordination, or it could be expanded to include the rationale for so doing.

4. Rural development goals: These could include an outline of the dimensions of the overall task of rural development, plus general and specific goals.

5. Authorize the Rural Enterprise and Community Development Administration to participate in loans and grants with other federal, state and private lending agencies:

"The Secretary may participate in joint financing in rural areas with the Economic Development Administration, the Small Business Administration, and the Department of Housing and Urban Development and other federal and state agencies, and with private and quasi-public financial institutions through joint loans and/or grants for the planning, development, and construction of rural community development projects."

6. Authorize R.E.&C.D.A. to fund non-metropolitan planning and development districts as defined by the 1968 Housing Act, as well as Economic Development Districts as designated by the Secretary of Commerce under Title IV of the Public Works and Economic Development Act of 1965, and Local Development Districts, certified under section 301 of the Appalachian Regional Development Act of 1965.

Section 306(a)(6) is amended by striking all after the word "grants" and inserting thereafter "to public bodies and non-metropolitan, multijurisdictional agencies, or other agencies as the Secretary may determine for the purposes of preparing comprehensive plans for rural area development and of employing permanent staff for the multijurisdictional agencies." (The above amendment also eliminates the $15-million planning grant ceiling which was part of our recommendation.)

7. Provide R.E. & C.D.A. with research and development capability:

This could be an amendment to section 331(c): "Within the limits of appropriations made therefore, make necessary expenditures for purchase or hire of passenger vehicles, for research relating to rural area development, and for such other facilities and services as he may from time to time find necessary for the proper administration of this Act;"

8. Eliminate the $300-million construction grant ceiling in section 103:

"The Secretary is authorized to make grants to finance specific projects for—".

9. Authorize appropriations committees to set level of insured lending programs:

"The Secretary may insure loans as provided in this Title in such amounts as may be authorized in appropriations acts."

10. Extend deadline for completion of comprehensive plans required as part of community facilities projects:

"Section 306(a)(3) is amended by striking '1971' and inserting in lieu thereof '1973'."

11. Change type of bonding from faithful performance of duties bonds to fidelity bonds:

Section 331(c) is amended by deleting the semicolon after the word "Act" and inserting in lieu thereof a comma and by adding thereafter the following: "and may obtain fidelity bonds protecting the Government against fraud or dishonesty by employees of the Farm Development Administration and the Rural Enterprise and Community Development Administration in lieu of faithful performance of duties bonds under section 14 of title 6, United States Code, and regulations issued pursuant thereto, but otherwise in accordance with the provisions thereof;".

12. Increase from $4-million to $10-million, or better still, eliminate entirely the ceiling on water and sewer loans in section 306(a)(5). If ceiling is to be increased, then section is amended by striking "4,000,000" and inserting "10,000,000." If the ceiling is to be eliminated, the entire paragraph (5) should be striken and the subsequent paragraphs renumbered accordingly.

13. Extend authorities for loans under the Consolidated Farmers Home Administration Act of 1961:

"Section 308 is amended by striking 'until October 1, 1971' and inserting in lieu thereof 'Loans'."

14. Increase ceiling of the Agricultural Credit Insurance Fund from $100-million to $500-million:

Section 309(f)(1) is amended by changing "$100,000,000" to "$500,000,000."

15. Other provisions of S. 1806: The language for these would start with line 3, page 2, of S. 1806, and continue through line 4 of page 3.

Title II of S. 2223:

1. Assurances for communities under 5,500 population that they will not be disadvantaged because of the increase in the population limit.

2. Provision to permit the banking system to evolve gradually.

As we pointed out in our testimony, we are desirous of seeing the banking system succeed and have reservations that if it is overburdened with too much structure and staff in the early years, its chances of success might be hampered. Therefore, we would recommend that consideration be given to a more gradual development of the system. For example, perhaps instead of ten banks in the beginning, provision could be made to permit a lesser number to be established as the needs indicated.

3. Provision that in case Farm Credit Administration cannot or does not wish to provide the services which Title II makes it mandatory for FCA to furnish, another source for these services could be used.

4. More flexibility in Title II:

Generally, we would recommend that the restrictions be kept to a minimum so as not to create unnecessary red tape that could be detrimental to progress in rural area development. As we pointed out, the legislation can always be tightened at some future date if such tightening is necessary.

Some specific recommendations in regard to the above would include endorsement of the Co-op League's suggestions dealing with Section 611 and Section 805(b)(5). Further, we would recommend that section 804(b)(5) also be amended in the same manner. The word "substantial" gives a little leeway which might make it possible for otherwise worthwhile rural development projects to be undertaken, whereas the present wording would automatically prohibit them.

As Bob and I both emphasized, S. 2223 is one of the boldest and most imaginative pieces of rural development legislation ever to be proposed. We hope our recommendations will prove helpful in strengthening the bill.

Sincerely,

WILLIAM E. MURRAY,
Legislative Representative.

Senator HUMPHREY. The next witness will be Monsignor Weber.

STATEMENT OF MSGR. JOHN GEORGE WEBER, EXECUTIVE DIRECTOR, NATIONAL CATHOLIC RURAL LIFE CONFERENCE, DES MOINES, IOWA

Monsignor WEBER. Mr. Chairman and members of the committee, my name is John George Weber. I am the executive director of the National Catholic Rural Life Conference which also constitutes the

Division of Rural Life of the U.S. Catholic Conference. Our organization has offices in Des Moines, Iowa, and Washington, D.C.

I am grateful for this opportunity to appear before you today and share with you our viewpoints regarding rural development. Throughout our 47-year history we have been committed to the betterment of rural people and their communities.

Before I continue I will say that I don't claim to be an expert of rural credit, and so on, and therefore my presentation is going to center more on the philosophical approach and the moral approach on this rural development.

During this past decade our Nation had an annual average of 600,000 casualties in rural America from the cost-price squeeze war raging in agriculture. They came limping and hobbling to urban centers and ghettos seeking first aid. As a compassionate Nation we have responded with many different kinds of aid and assistance.

However, as a Nation we have not halted the war which is causing these casualties. It is indeed noble to aid the victims of any war, but it is much wiser, more just, less expensive, and more lasting to stop the war in the first place.

The proposal contained in S. 2223, the Consolidated Farm and Rural Development Act, it seems to me will go a long way in stopping the war itself. I need not remind you that the purpose of any government is to promote the common good. Public authority must bear in mind the interests of the whole nation. This means it must strengthen all three areas of production—agriculture, industry, and services and simultaneously and evenly.

This has not been the case for American agriculture as witnessed by the great exodus from rural America and by the poverty stricken people left behind. Experience has taught us that unless public authorities take suitable action with regard to economic, political, and cultural matters, inequalities and imbalances between citizens tend to become more and more widespread, especially is this true in the modern world.

The American farmer, as all of you well know, has been subsidizing indirectly the American public by low farm prices and by sending many educated sons and daughters to the cities. Because farmers have to wait longer than most people for their returns on investment, labor and management, and because these are exposed to greater hazards, farmers have always found it harder to obtain the necessary capital to increase their returns. Much has been done in this area to assist the farmers. We have the Farmers Home Administration, and the Farm Credit System which includes the Federal Land Banks, the Cooperative Banks and the Production Credit Associations.

However, credit for rural community development and industrial enterprises in rural areas by private entrepreneurs has been rationed severely. This is an area where more credit is needed and which the S. 2223 bill seeks to supply. We all realize that as a nation's agriculture develops, fewer and fewer farm workers are needed to produce the food and fiber, but this does not mean that the surplus farm workers have to go to the metropolitan areas to add to their problems of congestion, pollution, and transportation.

Not by bread alone does man live. He needs living space; he needs fresh air and sunshine. Rural areas have these in abundance; why not use them? The Consolidated Farm and Rural Development Act has its main thrust in this direction.

It is based solidly upon our American democratic heritage and observes the two basic principles, solidarity and subsidiarity, of human society in order to permit the proper functioning of the government and safeguard the dignity of the individual. As envisioned in the act the moneys would be repaid to the Government as the self-help programs become productive and rural America flourishes with industrial development and human beings who are thankful for the opportunity to live in rural America.

Solidarity of action and direction is assured in the restructuring of the Farmers Home Administration uniting all activities under one head, the Assistant Secretary in charge of the Rural Development Credit who is appointed by the President of the United States with the advice and consent of the Senate.

The subsidiarial aspects, assuring the smaller units their proper function, are delineated in the all-inclusive scope of the act of projects which will develop rural America, in the areawide planning required by the act, through the exclusion of cities which have a population in excess of 35,000, and through the participation of individuals and local banks and local units of general government.

There are pitfalls, however, which must be avoided and perhaps should be spelled out more clearly in the act. The first can be called concretism. This means that administrators of the act would say to the individual of the community, "This is what you need and this is how we will help you." I grant that the plans and projects as envisioned in the act, must originate at the local level, but the established policy and regulations of any agency can pretty well control what will be approved and what will be rejected. Admittedly, there have to be regulations and guidelines, but local initiative and understanding must be safeguarded.

The second pitfall to be avoided is that of power. Education itself can become a form of power when we think that we are helping people by presenting them with our value system as the ideal way of life. Many well-intentioned projects written up by many well-educated people have been ignored and even ridiculed by those who have other values and perspectives. Here I am thinking of some of our minority groups such as Chicanos and Indians. The act calls for technical assistance. Let's make sure that it is assistance the people will want. Some poverty stricken people prefer to die with what self-respect they have rather than to live with the feeling that others have to keep them on their feet.

A third danger to be avoided is that of bureaucracy. This danger consists in establishing so many controls and so much "red tape" that the program becomes very expensive to administer, and poor people who are usually not versed in the matters of filing detailed forms are hesitant to participate in the program. If a situation like this became prevalent, it would defeat the purpose of the entire program.

Before concluding may I urge prompt action on title I of the act. In general, title I enlarges the scope of existing and proven procedures and, therefore, is the quickest way of adding muscle to the revitalizing of rural America. In conclusion, I commend Senators Talmadge and Humphrey and all the other sponsoring Senators on their efforts to halt the war in American agriculture and revitalize rural America to use the resources of space, fresh air, and sunshine while at the same time alleviating some of the problems of urban society as envisioned in the proposed Consolidated Farm and Rural Development Act.

Respectfully submitted.

Senator HUMPHREY. We are very grateful to you for your counsel and advice Monsignor. I like your analogy of binding up the victims, as compared to getting at the causes of the war and putting an end to it. It is a good way, I think, of describing what we are attempting to do.

We are going to be very cognizant of your observations, particularly as they related to planning. I have the same feeling that you do. Sometimes we have people who do so much planning for other folks, they are planned right out of it and we hope not have that happen. And we are going to examine this legislation very carefully because one of the reasons we want to decentralize it completely to the regional, district, and local level, is to get the input of people at that level and not to have it come from the top on down.

And second, the point that was raised by the members of the National Rural Electric Cooperative Association and that you have emphasized here, namely, the overstructure problem, I think we have to be very careful of that. And I am saying that so that we will look back over this record as a committee and staff and really examine into how much structure we have there that could impede the progress of this effort.

You place particular emphasis on title I, as did the preceding witness, as a possibility of getting something moving rather rapidly.

Monsignor WEBER. Yes.

Senator HUMPHREY. I thank you very much, Monsignor. I can only express our thanks to you again for the wonderful work of the National Catholic Rural Life. I have worked with your organization, as you may recall, for a number of years, with Monsignor Ligutti.

I hesitate to remember that far back, but I was a young man when I started.

Monsignor WEBER. Thank you.

Senator HUMPHREY. Our next witness is from the investment bankers. We have Mr. John Fogarty, vice president, Stern Bros. & Co., Kansas City, Mo., and chairman, municipal securities committee, Investment Bankers Association of America; Mr. Thomas Masterson, Underwood-Neuhaus & Co., Houston, Tex.; Mr. Lee Murphy, Dinkins (Ladd) & Co., New Orleans, La.; and Dr. John Peterson, director, municipal financing division, Investment Bankers Association of America.

Gentlemen, I have had the privilege of meeting very briefly with the witnesses here yesterday and we have had a preliminary discussion. And I am looking forward to this testimony. However before we do we will take a little break.

[Short recess.]

Senator HUMPHREY. Well, gentlemen, we want you to proceed now and just give us the benefit of your counsel here.

STATEMENT OF JOHN F. FOGARTY, VICE PRESIDENT, STERN BROTHERS & CO., KANSAS CITY, MO., AND CHAIRMAN, MUNICIPAL SECURITIES COMMITTEE, INVESTMENT BANKERS ASSOCIATION OF AMERICA

Mr. FOGARTY. Thank you, Mr. Chairman. I am John Fogarty, of Stern Bros. of Kansas City.

I am sorry Senator Pearson left. I live in Prairie Village next to him.

I have with me Thomas Masterson, a partner, Underwood, Neuhaus & Co., Inc., Houston, Tex.; Lee Murphy, partner, Ladd Dinkins Co., New Orleans, La.; and John Peterson, director of municipal finance, Investment Bankers Association. I have asked them to accompany me.

We have filed a rather lengthy statement but I have a brief oral statement here, and then we are open for questions.

We are authorized to testify on behalf of the more than 600 investment firms—both securities dealers and banks—who underwrite and make secondary markets for bonds of the 50 States and their political subdivisions. Our membership has extensive experience and expertise in financing the capital needs of State and local government. We also underwrite and make markets in the securities of private corporations and the Federal Government, including its many agencies.

We do not believe that the massive new credit system embodied in S. 2223 to assist community facility financing is necessary or desirable. Rural and small communities do have access to the financial markets of this country. Three of us at this table have spent our business careers serving the credit needs of small municipalities. There is a ready market for the bonds of most cities and school districts.

We have found that a good percentage of investors prefer investment in rural areas to that of metropolitan areas where a vast variety of problems exist. The regional dealers throughout the country have develeoped a dependable market for such securities. In addition, they have originated corporate financing for hundreds of small and intermediate-sized corporations, many of them based in rural areas.

We find technical problems in the legislation. The system itself is very complex and overlaps functional areas in titles I and II. The new rural development program duplicates existing activities of FHA, EDA, HUD, HEW, SBA, and could promote interagency competition. Eligibility of borrowers is confusing: Section 302 sets up eligibility if assistance is not available from any other source; section 506 qualifies this to available at a "reasonable" cost. The vagueness of the relending rate must be cleared up and guidelines or even formulas set out. We also question whether municipalities can legally purchase stock, as is envisioned by S. 2223.

The proposed legislation would create a new Federal bank that, unless specific guidelines are included, might follow the precedent of other such agencies and shift financing from the areas themselves to the large money market centers and the largest firms. There is much similar legislation for the creation of many other Federal banks to finance specific problems. Should all worthwhile programs be enacted, we would see a Nation seeking its financial help from Washington to an increasing degree.

We believe it would be helpful, both from a municipal or corporate standpoint, to make provision for the possibility of "joint-financing." For example, a bank or investment dealer might wish to participate in a loan for some percentage which would bring private-sector funds into play, and the regional bank might insure or purchase the balance of the loan. Through the ingenuity, and with incentives, the existing market structure can be utilized for such purposes.

(The prepared statement of Mr. Fogarty is as follows:)

Mr. FOGARTY. I am John Fogarty, vice president of Stern Brothers & Co., Kansas City, Mo. and chairman of the municipal securities committee of the Investment Bankers Association of America. I am accompanied by Mr. Thomas Masterson, partner, Underwood, Neuhaus & Co., Inc., Houston Tex., Mr. Lee Murphy, partner, Ladd Dinkins & Co., New Orleans, La., and Mr. John Petersen, director of municipal finance, Investment Bankers Association of America.

We are authorized to testify on behalf of the more than 600 investment firms—both securities dealers and banks—who underwrite and make secondary markets for bonds of the 50 States and their political subdivisions. Our membership has extensive experience and expertise in financing the capital needs of State and local government. We also underwrite and make markets in the securities of private corporations and the Federal Government, including its many agencies.

In our testimony today, we will focus on S. 2223, although many of the things we shall say are applicable to related measures. We would like to examine several aspects of the proposed rural credit mechanisms as they pertain to community facility financing. First, we will look at the presumed need for this new Federal lending agency. Second, we will discuss the technical difficulties with this measure which cast doubt on its usefulness as an efficient means of giving assistance. Third, we will consider fundamental policy questions raised by the creation of a new Federal program involving general credit assistance to State and local governments. Last, we will discuss alternative methods of financing State and local government assistance in the most efficient manner.

It is our conviction that a clear need for the rural bank complex contained in S. 2223 has not been shown nor has the implicit assumption that local borrowers are unable to secure sufficient credit at a reasonable cost been demonstrated. Furthermore, even to the extent that some present or future need could be determined, it has not been shown that the banking system embodied in S. 2223 would be the most effective way to meet it.

THE QUESTION OF NEED

The underlying justification for S. 2223 as it relates to community facility finance is the apparent belief that the existing market for State and local securities is somehow not getting the job done. For that reason we should take time to review the performance of the municipal bond market, both overall and, in particular, how it well serves smaller borrowers.

Following the tight money period of 1969 and 1970, the municipal bond market has seen a strong resurgence in bond sales. For all of 1970, over $18 billion in long-term municipal bonds were sold along with an additional $18 billion in short-term notes. In the first 6 months of this year, municipal bond sale volume has been over $12.5 billion for an indicated annual rate of about $25 billion. Short-term borrowing for the first 6 months was $13.2 billion, for an annual rate of about $26 billion.

As tables 1 through 4 document, the rapid growth in municipal bond sales over the past few years has been broad-based. Examination of the expansion in bond sales as classified by use of proceeds, regions of the country, grades of issue, and types of issuers show that all categories of borrowing and borrowers have shared in the increasing and robust volume of sales.[1]

Despite the great increase in the supply of municipal bonds—and the general pressures of inflationary finance—yields on municipal bonds have somewhat improved in relation to those on corporate bonds of similar quality. As table 5 displays, yields on municipals are approximately 70 to 71 percent those of comparable corporate bonds, an improvement over 1969 and 1970. This improvement has been experienced despite the fact that municipal bond financing has nearly doubled since the doldrums of 1969. (Corporate bond sales in contrast have grown at only half this rate.)

Another important fact which should not be overlooked is that yields on the lower grades of municipal bonds—those supposedly with the weakest market position—have shown through the 1960's a sustained improvement relative to similar corporate bonds.

Of course, future directions cannot be measured simply by reviewing past performances: There must be projections into the future and comparison of the supply of and demand for State and local securities. On the basis of most projections, it is evident that the market has by and large kept pace with demands and should be able to do so in the future. Most projections have set the size of the municipal bond market at approximately $25 billion to $30 billion by 1975. We would like to point out that bonds are currently selling on the verge of these annual rates—fully 4 years ahead of schedule. There will invariably be deviations around the trend, but sales volume has kept—and recently has exceeded—its scheduled growth.

A recent study undertaken by the staff of the Federal Reserve Board concluded that, although there is anticipated to be faster growth in the level of State and local spending than in GNP over the next 10 years, "the problem of municipal financing in credit markets remains within manageable size."[2]

In any event, the study concludes that the municipal bond market will experience fewer difficulties than the corporate bond market. This study therefore gives good reason to believe that municipal borrowing will maintain and perhaps improve its relative cost advantage over taxable borrowing in the foreseeable future.

The assertion is often made that there is some intrinsic marketing problem relating to the size of the community or the size of the issue that keeps certain units from borrowing needed amounts. However, communities of all sizes have been and are able to borrow money, except when they were prohibited from doing so by legal restrictions, such as occurred in 1969 and 1970. Communities, of course, do pay varying rates. This reflects that they face varying market situations, represent different degrees of investment risk, have individual requirements, and borrow at different times during the year.

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[1] Tables will be found in the appendixes.
[2] S. P. Taylor, "A Long Range Projection for Financial Markets in 1980" (Jan. 21, 1971), p. 4.

At this point, we would like to discuss the situation of small borrowers in particular. By and large, our own investigations in this area have failed to discover a significant market gap or discrimination against the smaller borrowers. Thus far our findings—using the most recently available data, the second quarter of 1971—indicate that:

(1) On average, smaller borrowers do not pay discernibly more to borrow than larger borrowers. To the extent that there is a systematic relationship between issue size and cost of capital, it seems to be that smaller issues paid somewhat less than larger issues for borrowings with an average life of less than 12 years (the maturity range where the greater number of bond issues are sold). Conversely, they paid somewhat more for borrowings of a greater-than-12-year average life.

(2) Taking into consideration the type of instrument, grade, and maturity of bond issues, there is in fact no direct relationship between size of bond issue and the net interest cost it commands.

While these results are heartening and in line with our general experience, they should not be interpreted to mean that the market has ceased to change or that there is no room for improvement. There continue to be new developments directed toward improving access to the market and lowering rates of interest for smaller, lesser-known credits. Attached to this testimony is a brief memorandum on such new developments as private and State bond insurance plans, bond banks, expanded use of consolidated borrowing procedures, and improved technical aid in debt management are being added to traditional methods of borrowing assistance. Some ideas will prove useful in some places, others will not. The point is that both private and public parties are always seeking better procedure, lower rates, and improved marketing methods.

Let us summarize: First, we have yet to find convincing evidence that small borrowers, as a class, are disadvantaged in the municipal bond market. Furthermore, even in the face of restrictive and inflationary markets and intermittent attacks on the tax-exemption principle, municipal sales have soared and interest rates on these bonds have more than held their own in comparison with those on taxable, corporate bonds. In fact, municipal bond yields for the lesser credits have shown a noteworth improvement in their relative market position through time. Moreover, these accomplishments have not required massive Federal expenditures or intervention. They represent the free market's response to the demands of State and local governments.

There is an excessive concentration on the "costs" of a free market—on its supposed inability to instantly reflect changing public needs and priorities. Conversely, there is too little recognition of the great benefit it entails as an efficient and impartial allocator of necessarily limited resources. And one of its best benefits is the competition for good ideas and better ways of doing things.

ADMINISTRATIVE AND TECHNICAL OBJECTIONS

As this committee knows well, the new financial system contained in S. 2223 constitutes a sweeping and exceedingly complex approach to the problem of rural developments. Now we should like to consider what we believe to be various technical and administrative difficulties with S. 2223 that would detract from its effective operation in the area of financing rural community development. Later, we will want to examine some of the larger conceptual and policy issues involved in the use and abuse of Federal credit assistance and the excessive reliance on Federal agency financing as a means of helping selected borrowers. The institutions created by S. 2223 and similar rural development are alike in many points; we shall concentrate our remarks on the former.

ADDS TO COMPLEXITY OF RURAL DEVELOPMENT PROGRAMS

First, let us consider the relationship between the existing powers of the Farmers Home Administration that would be enlarged in title I of S. 2223 and those that would be newly initiated in title II of that same bill. As has been pointed out previously, section 103 expands the purview of the Farmers Home Administration to encompass all of the rural community development projects as defined in section 105.[3] Evidently, this gives duplicative authorities to both FHA and the Rural Development Credit System. This opens the door to many policy and administrative questions as to how the budgets of the two agencies should be coordinated, how the terms and conditions of the two agencies for loans for the same purpose will be the same or different, and a host of similar operational complications.

Not only does S. 2223 add to the general level of complexity in the rural aid delivery system, it does not address itself to the overlap between its new purposes and authorities and those of other departments and agencies of Government now offering loans and grants in rural areas for similar purposes. Similar community development programs are found in the Economic Development Administration, Small Business Administration, Housing and Urban Development, Health, Education, and Welfare, Department of Labor, and others.

The glaring need is to reverse the trend toward greater administrative complexity and program overlap. As the President's Annual Report on Financial Assistance to Rural Areas stated:

> The lengthy inventory of Federal programs administered by many Federal agencies contained in this report dramatizes another important problem related to financial assistance for rural development. The proliferation and organizational fragmentation of Federal assistance programs too often result in uncoordintaed piecemeal approaches. State and local officials are confused and hampered by the variety of separate programs, each with different requirements and conditions. Although substantial sums have been made available through Federal programs in recent years, the results have been disappointing. Continual increases in the level of assistance, without basic reforms in the delivery systems, will not solve the problems of rural communities.[4]

Both the Rural Development Credit System (RDCS) and the Farmers Home Administration (FHA) under its broadened powers would compete in program areas now served by many other agencies. Because of their extensive and locally based delivery systems, the RDCS and the FHA would have a great advantage in promoting their particular programs. Inevitably, this would lead to competition with existing programs and RDCS and FHA would be able to preempt the programs of other agencies.

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[3] Statement of Hon. J. Phil Campbell, Under Secretary of Agriculture, before the Rural Development Subcommittee, July 23, 1971.

[4] Message from the President of the United States, "Annual Report on Financial Assistance To Rural Areas," U.S. Government Printing Office, July 26, 1971, p. 4.

Loose definition of eligible borrowers

There are several shortcomings in S. 2223 with respect to the determination of eligible public borrowers and the terms and conditions for such credit assistance as may be provided by Rural Development Credit Assistance program.

One of the purposes of the System as contained in section 201(b) of S. 2223 is that it is the policy of Congress "to bring rural credit needs into effective contact with the great central money markets of the Nation." Yet the implication of the provision in section 301 is that preference will be shown to communities and areas that "have demonstrated and who have established records of financial stability." It would appear to us that financially stable borrowers are able to compete effectively in the conventional credit market under existing conditions, that, in fact, no lack of contact with the national money market now exists. The unfortunate consequence of this instruction may be to give assistance where it is least needed by most measures, something that would dilute the program and divert it from its announced aims.

Of greater operational consequence, however, is the question of defining what is meant by the unavailability of credit. Section 302 of S. 2223 stipulates: "The potential borrower must demonstrate that the financial assistance applied for is not available from any other public or private credit source."

Section 506(a) later elaborates:

> A District Rural Development Credit Agency is authorized to make loans and provide other authorized assistance under this title directly to any applicant eligible for such assistance in any rural area in which there is no participating or cooperating institution able and willing to supply on reasonable terms and conditions the credit needs of such applicant.

We endorse the intent of such language, which is to restrict lending assistance to hardship and high-cost cases. But, to assure adherence to this intent, it is necessary to be much more explicit in what is meant by "available" credit and "reasonable terms and conditions." We strongly recommend the requirement that there be a demonstration of need in the form of a bona fide market test. Furthermore, any market test should be coupled with some explicit and realistic statement of key market-related items that are to be considered reasonable and, especially, should stress the avoidance of submarket lending rates that are totally out of line with the conventional market.

No precise instruction on interest rates and terms

Section 506(b) states that DRDC's may set rates charges "to provide types of credit needed by eligible borrowers, at the lowest reasonable costs on a sound business basis, taking into account the cost of money to the agency, necessary reserves and expenses of the agency, and services provided to borrowers and participants."

While the instruction gives several elements to consider, there is no guarantee that in fact the terms and conditions will be on a sound basis or really will reflect the agency's cost of money or the services it provides. We can only surmise from history that the contrary will in fact be the case. Demonstration of inability to borrow has been loosely interpreted in the past and this, coupled with artifically low relending rates, has led to unwarranted and wasteful competition with conventional credit sources.

Similar provisions are found in the Farmers Home Administration Water and Sewer loan program (which would be greatly expanded by title I of this bill) and the results have not been happy. These are outlined in the memo in the appendix to this testimony. The FHA frequently has financed projects which could have borrowed at competitive rates in the conventional market. FHA's totally unrealistic relending rate (a statutory ceiling of 5 percent), discriminatory promotion of its own services, and penchant for designing financial instruments so they are practically unsalable in the market have precluded best use of both program funds and conventional market sources.

While we have continued to discuss our difficulties with FHA and hope for a fair resolution of them, we are anxious that lessons be learned from the past.

Without concrete definition of what constitutes an inability to borrow and realistic interest charges, this legislation would expand and approve such conduct by FHA, resulting not in assistance to "problem" borrowers, but in unnecessary assistance to borrowers at a cost of the Government and the taxpayer.

BROADER POLICY QUESTIONS

The largely technical details that we have outlined above bring to question the whole concept of enlarged agency financing as an effective, much less desirable, means of speeding rural development. Once we move beyond the complex language of this measure into the real world of its implementation and administration, we are faced with many costs—and major policy problems—that are too easily lost in the maze of rules and regulations.

First, there is the cost of duplication and program overlap that is incurred by the would-be community that must plod through program requirements and certifications in the hope of getting a loan at preferential rates. But all this must await establishment of rules and regulations by the various boards, banks, and agencies involved.

S. 2223 would require the establishment of a Federal Rural Development Credit Board and directs it to establish policies regarding terms and conditions under which assistance may be made available. Once such policies are established, the Federal Rural Development Credit Agency is directed to formulate rules and regulations pursuant to those policies. The potential for a developing backlog of applications during the time when policies, rules and regulations are being drafted, reviewed, and established is clear. The experience of the Department of Housing and Urban Development is that delay results from such a backlog. The question is thus raised as to whether this legislation fosters rapid assistance to rural areas or effectively delays such assistance.

This problem is compounded by the need to establish from a standing start an entirely new banking system. That will take time. That means that the program will be slow in starting while its complex operational structure is put together.

Second, the RDCS, as worthwhile as its desired aims may be, could operate to weaken the position of State and local governments through the aggrandizement of its own bureaucracy and policies. Public interest groups connected with State and local government are generally apprehensive about Federal banking systems such as this legislation proposes. A primary reason for this apprehension is their fear of increased bureaucratic intrusion into local decisionmaking. A major problem—one with which they are painfully familiar—is the cost of creating a new institution to handle every new problem. As problem solvers we have "institutionitis." We tend to concentrate on new institutions rather than zeroing on the desired new product.

We cannot associate with every point contained in the President's Special Rural Development Revenue Sharing proposal. Nonetheless we applaud the evident desire to rationalize and simplify the disbursement of Federal assistance. For these reasons, we have gone on record in support of the general revenue sharing concept. With respect to this legislation, we therefore affiliate with the view that furute credit assistance directed toward State and local facilities should be aimed at strengthening rather than reducing the role of State and local governments.

As President Nixon indicated in his letter of transmittal on Financial Assistance to Rural Areas:

> I strongly believe that it would be better to establish a series of State and local special credit institutions than to create a nationwide federally-sponsored community bank, since the former course places responsibility for decision making and action closer to the people who require assistance.[3]

A third policy issue involved—one which we have emphasized repeatedly in the past—is that of proper rationing and restraint in the use of credit assistance subsidies.

It is evident that the fulcrum for the RDCS loan program—that element which makes submarket rates of interest available to borrowers—is found in section 801 of S. 2223. Through interest supplements the difference between the true costs of the rural credit system's operation and the returns on its loans would be covered by congressionally appropriated funds advanced by Treasury. This method of financing gives the subsidy a high degree of leverage and effectively removes much of the system's lending program from Federal budgetary control. The substitution of off-the-budget, privileged agency lending and borrowing operations has been overdone and promises to swamp the capital markets, unless some order and priorities can be established. For the economy as a whole, it is not a cheap and easy way out.

A final point deserving this committee's attention, we believe, is the consequence of presumably bringing rural areas in contact with the major money markets through the device of a new Federal agency-bank system.

To the investment banking industry as a group, in relation to their private interest of underwriting and dealing in governmental securities, it is a matter of indifference whether the funds are raised by a Federal agency or in the market for State and local securities, as at present. Someone, somewhere, will do the business. But the Federal agency procedure such as envisaged in S. 2223 will tend to concentrate the business into the large money market centers and the largest firms. Correspondingly, it will shrink the market of small and regional dealers who have developed an effective market for tax-exempt State and local issues.

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[3] *Op. Cit.* page III.

The cost of this, not only to those investment bankers affected, but also to the governments that no longer have a functioning alternative to Urbank, would be great. Once the conventional market is dismantled, local governments would be effectively at the mercy of the central banking authority. The alternative of an active, broadly based tax-exempt market would cease to exist.

Major problems with Federal credit assistance

We are deeply concerned about the large army of Federal credit assistance programs that are growing at an exponential rate and dramatically changing the composition of credit flows in the economy. Elsewhere we have examined the consequences of these developments in great detail.[*] Therefore at this point, let us quickly review the major difficulties we see in these trends.

In fiscal year 1972, if the budget deficit requires some $25 billion in public borrowing, as many observers think, and if federally-assisted credit programs grow by approximately $30 billion, as is scheduled, then the combined total of federally-assisted and direct borrowing will be about $55 billion. This would represent approximately 40 percent of all net credit demands placed on the capital markets in the next fiscal year. By fiscal 1972, the combined $525 billion in publicly-held outstanding Federal direct and assisted obligations will equal about one-half of the GNP in that year.

Such a rapid explosion of Federal credit demands should be of paramount public concern, especially because most of them are beyond the pale of budgetary review and control, while others involve awkward, expensive, and discriminatory financing arrangements.

Federal credit programs are preemptive in their demand for credit and generate heightened competition for funds and higher interest rates. In effect Federal agency lending operations take would-be debtors that have been price-rationed out of the capital markets and reinject them as an agency borrowing with Federal Government backing. Since these programs do not increase the total supply of savings in the economy, their operation merely pushes the pressures along. Market rates of interest go up to create a new margin of hardship cases in some area that is not insulated.

Federal credit programs can be perverse in their impact on monetary and fiscal policy. Under conditions of restrictive credit, when monetary policy is forced to work overtime to curb demands by squeezing out would-be borrowers, the injection of new, strongly-positioned deman[illegible] Federal agencies intensifies the restraint.

F[illegible]ore, the ultimate influence of Federal credit programs on credit [illegible] and resources is unclear and may be counterproductive, since any rearranging of credit flows as a means of levering resources from one use to another always involves a loser who has been bid out of the market.

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[*] Appended to this testimony is a condensation of problems with Federal Credit Assistance. A more extended analysis is contained in our testimony of Mar. 23, 1971 on S. 1015 (Environmental Financing Authority) before Senate Committee on Public Works.

It is not our intention to indite the particular areas aided or to deny that the programs can have individual merits. But we do mean to call attention to a method of finance that can be subject to abuse and overuse and to a dangerously myopic attitude that paper can be turned into resources.

Many share our concerns. The President and the Treasury, as well as a legion of financial authorities have acknowledged the problems raised by the existing and growing number of Federal credit programs. In a recent speech dealing with Federal credit policy, Under Secretary of the Treasury Paul Volcker announced the concept of the Federal Financing Bank which would carry out President Nixon's mandate to bring review, coordination, and consolidation to Federal lending programs. Moreover, in testimony before this committee, Under Secretary of Agriculture Campbell stated the need to consider the Federal Financing Bank before building a new tangle of credit programs.

We do not know the details of the Federal Financing Bank proposal, but its consideration, which we hope is imminent, will provide a much needed and long overdue forum for examination of the operation and impact of Federal credit assistance. Surely, broad sweeping proposals such as the rural credit system envisaged in S. 2223 should await this examination.

CRITERIA FOR FEDERAL CREDIT ASSISTANCE

This year our association testified in both the Senate and House on the capital financing provisions of such varied proposals as Coastal Zone Management, the Environmental Financing Authority, and the Urban Development Bank. In the course of that testimony, we have repeatedly challenged the concept and application of the Federal agency—special bank—method of extending credit assistance to State and local governments. Alternatively, we have suggested the following criteria that could be used in judging the merits of various methods of Federal credit assistance to these units:

1. The need for such assistance should be firmly established and carefully documented.
2. Once a particular need is demonstrated, then the credit assistance mechanism used to meet that need should be designed to avoid creating situations where there is any unfair and wasteful competition of such assistance with the private capital market. Wherever possible, it is better to allow the market mechanism to continue to allocate credit among competing uses.
3. Credit assistance should not inadvertently lead to a demoralization of State and local government fiscal responsibility or an unfair distribution of overall financing effort between aid recipients and the Federal Government.
4. Credit assistance programs should be designed so as to clearly reflect the degree and amount of subsidy they contain and the other costs entailed.
5. Credit assistance programs should be as simple and straightforward as possible. They should not lead to a proliferation of new bureacracies and institutions to handle each particular problem.
6. Any credit assistance should not constrain the freedom of action and ready access to the market on the part of all State and local gov-

ernments. A strong and sensible attraction to the existing municipal bond market is that it permits these units to borrow as much as needed, when needed to fulfill their own particular policy objectives.

7. Credit assistance should not be used instead of grants-in-aid where the latter are preferable and required.

In summary: The financing of the State and local assistance should be soundly grounded on a substantial and clear commitment of public funds; the real need lies in more adequate Federal appropriations and a firm commitment of Federal funds, rather than the creation of a new vehicle to help local governments increase their indebtedness. The latter type assistance should not be provided by what we believe are unnecessary and faulty credit mechanisms. It should not be diluted by any notion that somehow budgetary economies may be effected by shifting financing from a visible claim on current revenues to a largely invisible draft on the capital markets. As an economy with limited savings and resources, we cannot make that shift and we can overtax ourselves in the attempt in many ways.

In our testimony we have addressed what are basically technical issues. We cannot as professionals presume to pass judgment on the broader question of policy priorities, which is the responsibility and prerogative of this committee and, in the larger sense, of Congress. What we have sought to do is point out the costs involved and to suggest how purposes might be achieved most efficiently and effectively.

If, however, we do carry a special brief, it is a belief that a market mechanism broadly based on private capital and institutions should continue to play a central role in our economy, and that responsibility—with adequate resources—should remain with local government in planning and executing its own expenditure plans.

(The attachments are as follows:)

TABLE 1.—USES OF PROCEEDS OF MUNICIPAL BOND ISSUES

[In millions]

	1966	1967	1968	1969	1970	1971[1]
Education	$3,477	$4,244	$4,639	$3,146	$5,035	$6,220
Transportation	1,833	2,052	2,829	2,441	3,173	4,904
Utilities and conservation	1,856	2,359	2,775	1,686	3,471	5,860
Social welfare	1,071	1,372	1,620	1,467	1,654	2,992
Industrial	504	1,397	1,606	51	110	176
Public service	112	150	186	211	365	548
Other	696	757	979	2,655	4,200	4,538
Total	9,549	12,331	14,634	11,657	18,008	25,238
Short-term borrowing	6,524	8,025	8,658	11,783	17,849	26,400

[1] 1st 6 months annualized.

TABLE 2.—BOND SALES BY REGIONS

[In millions]

	Northeast	Central	South	West
1966	$2,941	$2,520	$3,558	$2,216
1967	3,863	3,119	4,677	2,580
1968	4,738	3,818	4,733	2,957
1969	4,228	2,542	2,988	1,903
1970	6,151	4,426	6,640	3,988

Source: Investment Bankers Association of America.

TABLE 3.—BOND ISSUES BY TYPE OF UNIT

[In millions]

	States	Counties	Municipalities and townships	School districts	Special districts	Statutory authorities
1966	2,330	731	2,350	1,575	768	3,322
1967	2,649	1,284	3,757	2,036	866	3,842
1968	2,657	1,845	3,727	2,278	1,301	4,608
1969	3,264	1,126	2,287	1,483	556	2,985
1970	4,166	1,684	4,533	2,127	1,160	4,392
1971 [1]	6,560	1,754	5,683	2,786	1,364	7,260

[1] 1st 6 months annualized.

Source: Investment Bankers Association of America.

TABLE 4.—BOND SALES BY GRADE OF ISSUE

[In millions]

	1966	1967	1968	1969	1970	1971 [1]
Aaa	$333	$1,424	$1,193	$1,229	$1,529	$2,938
Aa	2,701	3,725	3,831	3,029	4,691	6,530
A	2,679	3,452	5,528	3,603	6,754	7,992
Baa	2,018	2,597	3,033	1,754	3,176	3,968
Ba (and lower)	105	184	128	66	72	40
Unrated	2,703	2,973	2,603	1,934	2,021	3,938
Total	11,087	14,434	16,315	11,700	18,062	25,306

[1] 1st 6 months annualized.

TABLE 5.—RATIO OF NEW ISSUE MUNICIPAL TO CORPORATE BOND YIELDS

[By Moody's ratings, 20-years] [1]

Year	AAA	AA	A	BAA
1955	69	71	79	81
1960	68	74	76	79
1965	70	71	72	73
1966	67	68	70	70
1967	64	65	67	67
1968	64	65	67	69
1969	70	72	73	73
1970	73	73	73	70
1971 [2]	71	71	71	69

[1] (Municipal yield/corporate yield)×100.
[2] 1st half of 1971.

Note: Details may not add to totals because of rounding and slight definitional differences.

RECENT DEVELOPMENTS IN MARKETING SMALL AND MEDIUM SIZED MUNICIPAL BOND ISSUES

State and local bond debt outstanding has grown from $16 billion in 1946 to over $140 billion currently. New municipal bond issues in 1970 totaled almost $18 billion and are anticipated to climb about $25 billion annually this year.

Part of this remarkable record of growth and market performance is the result of an ongoing effort by public and private bodies to assist State and local borrowers in obtaining better interest rates on their bond issues. New marketing techniques have been created to help small and medium sized bond issuers of good financial quality, who are often unable to compete with large well-known issuers because small issues may be unrated, have complex terms, or be exposed to uncertain reception by the public.

Three innovations—municipal bond insurance programs, State consolidated borrowing concept, and State municipal advisory councils—are designed to assist smaller and weaker borrowers.

I. PRIVATE BOND INSURANCE PLANS

The newly created and licensed American Municipal Bond Assurance Corporation (AMBAC) offers a partial answer to the problem of the small and medium size borrowers. The AMBAC, a wholly private capital venture, has been formed to insure the payment of principal and interest on municipal bonds such as those just described which are comparable to "A" and "Baa" ratings. Within certain limitations, AMBAC will insure both revenue and general obligation bonds.

The increased interest of dealers and banks in an insured issue and the lower interest costs the insured bonds will command should result in average gross interest cost savings considerably in excess of the cost of the insurance, according to Company spokesmen. Standard and Poor's, a nationally recognized rating service, has agreed to give a rating of "AA" to AMBAC-insured issuers.

AMBAC will limit itself initially to insuring municipal bond issues, the principal and interest of which do not exceed $6 million in total amount (approximately $3 million par value). It expects this maximum to be increased through arrangements for reinsurance to $10 million or more.

II. STATE CONSOLIDATIONS AND COORDINATION OF BORROWING

A. *Bond banks*

In 1969, the Vermont Municipal Bond bank was created by the enactment of Public Act No. 216. Simply stated, the Vermont Bond Bank packages bond issues of small and medium size communities in the State and sells the packaged bonds on the open market. The Bank is obligated to pay the principal and interest on these bonds from the revenues and funds of the Bank, and the repayment of its bonds is secured only by the revenues and funds it expects to receive from its ownership of bonds of the municipalities involved. Although the Bank's debt is not guaranteed by the State of Vermont (an "Aaa" credit) its bonds receive interest rates lower than those the individual community might otherwise command because the State Legislature is authorized (but not obligated) to make up any short-fall in payments.

In December, 1970, the Bank sold its first issue of bonds in the amount of $46 million due serially December 1, 1970 to 1990, ranging from 4¾% in 1970 to 5½% in 1990. The proceeds of the series were distributed among 44 separate political subdivisions, 36 of which were school districts, four of which were villages, three of which were towns, and one of which was the City of St. Albans. The amounts of municipal bonds of these political subdivisions purchased by the Bank ranged from $90,000 for one town school district to $3,875 for a high school district.

Legislation similar to that which created the Vermont Municipal Bond Bank has been introduced in many State legislatures, not only New Jersey, Alaska, California, Connecticut, Florida, and Ohio. Proposed methods of securing banks' obligations vary considerably: the State may guarantee the bonds, or the Bank may have the authority to levy some taxes, or to receive money from a State reserve fund.

The State Bond Bank concept appears to work well in a state like Vermont where there are numerous small and unrated communities and school districts and few local investment banking firms, but in other states (such as Texas which has approximately 600 Moody's ratings and a strong Municipal Advisory Council), studies indicate that for most units, lower interest can be obtained in the open market rather than through a State municipal bond bank.

B. *State school building authorities*

Several States, for example, Pennsylvania, Georgia, and Maine have public school building authorities, which issue bonds for the construction of schools. The school authorities lease the buildings to the local governments, and use the income to repay the interest and principal of the bonds. The local governments obtain ownership of the buildings when the bonds have been repaid. In the States mentioned above, additional funds from the State are available if the Authority is not able to meet its payments schedule.

The Virginia Public School Authority has powers quite similar to those of a bond bank. This agency issues its own debt and, with the proceeds, buys local governments' school bonds. In addition to the funds the Authority receives from the bonds it owns, it gets semi-annual payments from the State school construction fund.

C. *State debt management and advisory services*

An increasing number of States are creating authorities to package small issues of their local governments or to insure these issues. These agencies may handle bonds of any type or they may be directed at helping bonds issued for a particular purpose, such as pollution. North Carolina, Virginia, New Jersey, and Ohio, to name a few, have agencies to assist local borrowers. (See Advisory Commission in Intergovernmental Relations: State Technical Assistance to Local Debt Management, 1965, for an extensive discussion of State assistance to local borrowers. This study includes recommendations on further actions states might take to aid their local units in issuing debt.)

Another new plan is being put into effect in Minnesota which has recently passed legislation whereby it will guarantee the bonds of its local units. The State Auditor will guarantee the local general obligation bonds, which are certified by counsel to be valid, in return for an immediate payment of 2½% of the bond principal or $1000, whichever is greater. Should the local government default, the State will advance funds to cover the deficit. State law limits the principal amount guaranteed to $400 million, and the State may appropriate up to $20 million to cover defaults.

III. MUNICIPAL ADVISORY COUNCILS

A third relatively new mechanism to assist the marketing of small and medium size bond issues at lower rates is the State Municipal Advisory Council. There are many benefits to bond issuing localities which are afforded by the Councils, but they all add up to a dependable reservoir of capital funds at a minimum rate of interest. These savings are accomplished primarily through the financial reporting activities of the councils. By providing financial information and reports on the borrower, the municipal advisory councils have given rating services such as Moody's and Standard & Poor's Corporation the information needed to properly rate hundreds of municipalities which might otherwise have gone unrated or received substandard ratings, and would therefore have had to pay a higher interest rate on their debt. According to the Municipal Advisory Council of Texas, (perhaps the largest and best known of the councils), the number of municipalities rated rose from 200 in 1955, the time of the establishment of the Council in Texas, to about 600 today, and the savings in interest costs to be paid by the citizens of Texas is on the order of $9 million to $12 million annually. Other advisory councils report similar savings. Thus, it would appear that the services provided by municipal advisory councils, particularly in the field of financial reporting have proved invaluable in those states where advisory councils have been formed and are active.

In summary, innovative programs aimed at increasing the size of issues of local government bonds and making financial information available on small borrowers have been instituted in many states to improve the marketability and credit rating of the bonds of their local units. The concept of municipal bond insurance written by private corporations, he creation of State bond banks and/or authorities, and services performed by municipal advisory councils are all making it possible for small and medium sized communities and agencies throughout the country to issue good quality bonds at interest rates comparable to those of large, well-known issuers. As these programs grow and expand, even greater interest savings to issuers would seem to be a certainty.

PROBLEMS WITH FEDERAL CREDIT ASSISTANCE

There is already a large army of Federal credit assistance programs that are growing at an exponential rate and dramatically changing the composition of credit flows in the economy. A key reason for this rapid growth has been that this form of financing permits the instatement of large new programs without the resulting expenditures being reflected directly in the budget.

Quite apart from the usefulness of the underlying purposes hereby financed, there are many problems with this method of program finance.

Before reviewing the ramifications of these, we should like to discuss the massive dimension of these programs. As the chart from the Special Analysis of the Budget indicates, total Federal credit assistance outstanding will have grown by 250 percent over the last 11 years, from $100 billion in 1960 to a contemplated $250 billion in 1972. While that part reflected *in the budget* will have grown hardly at all in the last four years (approximately $50 billion outstanding from fiscal 1968 through fiscal 1972), that part *off the budget* will shoot from $100 billion to over $200 billion, thereby doubling in four years. In fact, between fiscal 1971 and 1972, direct budgeted loans will increase by $2.7 billion, while off-the-budget loans will grow by $28.7 billion.

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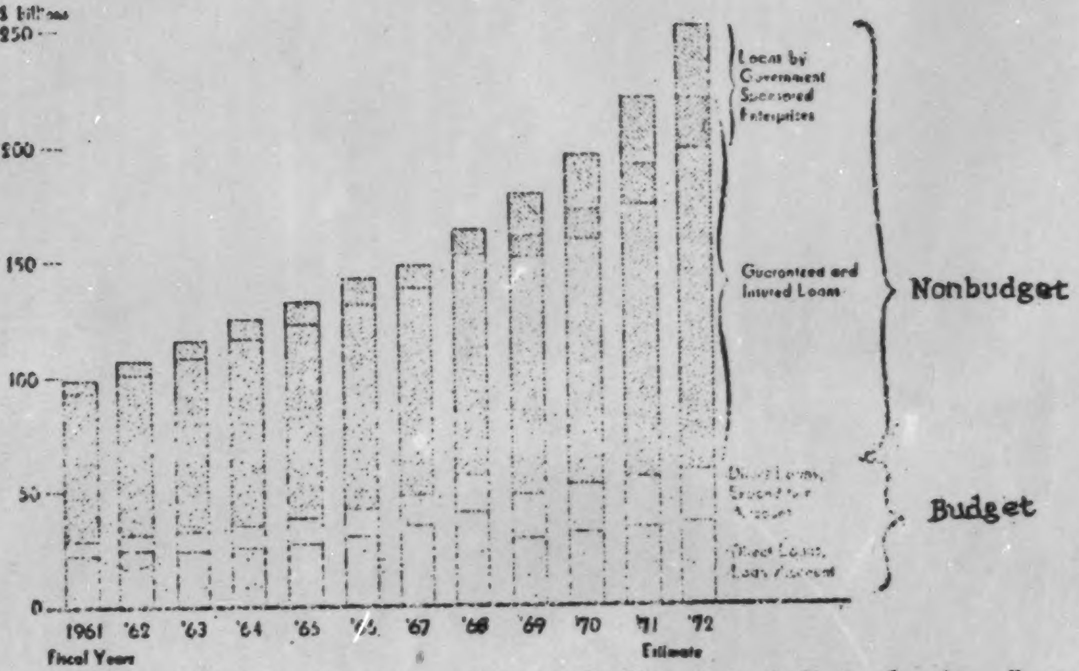
FEDERAL AND FEDERALLY ASSISTED CREDIT OPERATIONS



Source: The Budget for Fiscal Year 1972: Special Analysis, Page 83.

NET FEDERALLY ASSISTED BORROWING FROM THE PUBLIC INCLUDING GOVERNMENT-SPONSORED AND GOVERNMENT-GUARANTEED AGENCIES

[In billions of dollars]

	Fiscal year—			
	1969	1970	1971	1972
Direct Federal borrowing	−$1	$5	$20	$25
Federally assisted borrowing	13	15	21	30
Total	12	20	21	55
Net credit raised in capital markets	90	94	115	125
Total Federal share of net credit (percentage)	13	21	36	44

[1] Estimated.

Sources: Federal Reserve Flow of Funds, The Budget for Fiscal Year 1972: Special Analysis, Table C-9. Manufacturer's Hanover Trust Co., Economic Report, February 1971.

How does this $31 billion increase in Federally-assisted credit fit into the total credit flows of the economy? The accompanying table gives some indication of this by comparing net financial capital flows (funds raised) to that amount absorbed by new direct Federal and Federally-assisted borrowing. This fiscal year it appears that the Federal direct and assisted share of new capital raised will be over 30 percent. In fiscal year 1972, if the budget deficit requires some $25 billion in public borrowing, as many observers think, and if Federally-assisted credit programs grow by approximately $30 billion, as is scheduled, then the combined total of Federally-assisted and direct borrowing will be $45 to $55 billion. This would represent approximately 40 percent of all net credit demands placed on the capital markets in the next fiscal year. By fiscal 1972, the combined $525 billion in publicly-held outstanding Federal direct and assisted obligations will equal about one-half of the GNP in that year.

Such a rapid explosion of Federal credit demands should be of paramount public concern, especially given the fact that the bulk of it is beyond the pale of budgetary review and control.

1. *Federal credit assistance as a circumvention of the budget review and control.*—Federal credit programs can distort the budget as a document for orderly choice among program priorities and as an instrument for economic control.

The problem arises from the way in which the government has chosen to keep its books and a peculiar accounting convention that encourages the concealment of Federal credit activities.

The principal attraction is that large amounts of resources can be allocated without immediate budgetary impact. Guarantees are viewed as costless (except in the case of defaults or defaults that are only staved off by elaborate refunding or grants). Subsidized borrowing through agency borrowing or loan sale operations requires seemingly small appropriations to cover the debt-service subsidy. However, of course, these subsidies (and the attendant administrative costs) grow through time, and each fresh crop of new commitments brings higher future levels of outlays and contingent obligations. Thus, programs build in uncontrollable expenditures that snowball through time and reduce the latitude available to future Congresses and Administrations. And the budget—because these items are excluded—no longer shows the economic plan of the government or its pervasive influence over resource flows. This in itself is bad. But, when the fact is that putting expenditures outside of the budget has come to be viewed as a positive virtue, things are worse yet.

2. *Federal credit programs often involve awkward, expensive, and discriminatory financing arrangements.*—Much Federal credit assistance is awkward and expensive as a method of financing. In part, this problem is a product of the multitude of programs and varieties of securities which the Federal government sponsors. Although explicitly or implicitly these all constitute Federal obligations, they command varying rates of interest as they compete with one another as well as other securities. For example, in 1971 Federally guaranteed loans typically carried gross yields of 9 1/2 percent (while borrowers, after subsidy, paid rates ranging from zero to 6 percent). Federal budget and nonbudget agencies that year borrowed at rates between 7 and 9 percent, while direct Federal lending generally commanded still lower interest rates.

Some programs are financed by sales of loan assets to private investors as 100 percent obligations which do not appear as budget items. This device may be used by agencies that have no lending or borrowing authority of their own; but a relatively small amount of seed capital placed in a revolving fund can be converted into a large-scale loan-brokering operation as the fund is turned over several times a year. All of the additional financing costs are absorbed by the Federal government, including the servicing of the loans, after they are sold. These programs are thus able to influence the flow of credit and allocation of resources outside the discipline of the budget. Moreover, this is done without taking advantage of the most efficient means of financing: direct Treasury borrowing.

A related problem is that some programs not only assist borrowers but may actually elevate them above the impact of both monetary and fiscal policy and reward them with unintended and unwarranted gains from inflation and credit stringency.

3. *Federal credit programs are preemptive in their demand for credit and generate heightened competition for funds and higher interest rates.*—In effect, Federal agency lending operations take would-be debtors that have been price-rationed out of the capital markets and reinject them as an Agency borrowing with Federal government backing. Since these programs do not increase the total supply of savings in the economy, their operation merely pushes the pressures along. Market rates of interest go up to create a new margin of hardship cases in some area that is not insulated.

It is patently incorrect to argue that a reshuffling of securities by Agency lending operations, such as the proposed Environmental Financing Authority, in some fundamental way lessens the pressure for all credit markets by recycling the rationing process at the new, higher interest rates needed to ration the limited supply of credit. Carried to extremes, it will simply accentuate the overall financing problem for State and local governments and everyone else by driving up rates of interest.

4. *Federal credit programs can be perverse in their impact on monetary and fiscal policy.*—One of the ironies involved in proposals for credit assistance is that the greatest pressures for such assistance develop in times of restrictive credit and high interest rates. Yet at that very time, the infusion of an additional demand and a reducing of the interest sensitivity of greater amounts of borrowing exacerbates the problem of bringing the economy under control. At such times, when monetary policy is forced to work overtime to curb demands by squeezing out would-be borrowers, the injection of new, strongly-positioned demands by Federal agencies intensifies the restraint. Other borrowers—of lesser priority perhaps only because they are unknown or unrepresented—are forced out by a process which drives up all interest rates. Unless we give every worthy borrower a Federal subsidy or guarantee or Agency loan, we must come to realize that in times of credit stringency, capital market demands must be lessened, not intensified. This is done by encouraging savings and by financing out of current revenues. To the argument that such action requires raising taxes or making hard choices among expenditures, it must be replied that those who borrowed (or could not borrow) because of the recent high interest rates in effect did pay taxes. These taxes are collected in the form of higher debt service costs and fewer houses, public facilities, and other investment opportunities that are priced out of the market.

5. *The ultimate influence of Federal credit programs on credit flows and resources is unclear and may be counterproductive.*—Federal credit assistance is necessarily discriminatory and certainly stimulative of total credit demands. But our knowledge of the longer-term consequences—the details of restrictive credit and resource flows and their economic and political implications—remain hazy at best.

The answer that these credit programs merely rechannels existing credit flows misses the point.

As we and others have repeatedly pointed out, any rearranging of credit flows as a means of levering resources from one use to another always involves a loser who has been bid out of the market. Just as the budget does not reflect the beneficiaries of these programs, neither does it disclose the activity that no longer takes place. The net results may be completely counterproductive.

The ultimate alternative could be one of scrapping a free capital market and the substitution of blanket Federal credit support. The only borrowers then would be those with "priorities."

Problems With Farmers Home Administration Handling of Public Facility Loans

The purpose of the lending program in the Farmers Home Administration is to provide funds for rural communities which would be unable to obtain sufficient credit elsewhere to finance vital public projects that will further the economic development of their areas. In our testimony before this Committee in 1967 and in several statements to the FHA, we have discussed problems in the administration and broadening scope of the lending program. Yet in its handling of the community facility loan program, the FHA has continued to skirt its statutory powers and to ignore Congressional intent by lending to financially able communities for projects at submarket rates. Many of these projects could, by no stretch of the imagination, be considered necessary or a benefit to the general community.

The FHA has repeatedly made loans to communities who could otherwise have borrowed in the market. Units with very good credit ratings (such as "AA") have received FHA loans. And towns whose population far exceeds the current population guideline of 5,500 have also gotten FHA funds. Even in cases where private bids have been made on the loans, the FHA has persisted in taking the issue itself. Clearly, the intent of FHA financial assistance was violated in these cases. Unfortunately, nothing in the pending legislation would assure future compliance with Congressional intent and cure the unwanted and expensive circumvention of the conventional market.

In addition, there is evidence that many of the debt issues taken by the FHA could have been financed in the open market had they not contained unusual and unnecessary provisions which made them unacceptable to private investors. There are many features which could discourage investors from taking bonds. These might include an odd issue size, small and unusual serial maturities, a legal opinion by an unrecognized bond attorney, or unusual call provisions. The FHA should institute the requirement that bond issues it considers should first be tested in the market to see if they can be sold; and FHA should discourage tailoring of an issue to make it unattractive to private investors.

At the local level, FHA has actively recruited borrowers with the promise of a grant if an FHA loan was accepted, and has at least threatened implicitly that the penalty for financing through private sources would be the loss of such a grant. Such recruitment of loans by the FHA ties up its funds, which might better be used to help poorer communities.

The FHA relending rate is frozen at 5%, an unrealistic and unreasonably low figure in light of interest rates in the market today. At such a low rate, the FHA is undoubtedly finding no lack of borrowers, for the interest rates for most long-term municipal bonds of any grade are now above that level. Any new legislation must provide a specific definition of "reasonable rates". In 1966, the Administrator of the FHA stated to the IBA that his definition of "reasonable rates" as set forth in that Act was "the rate currently prevailing in the community for credit for similar purposes and for the periods of time in which the specific borrower will need to be successful." Almost immediately thereafter the Assistant Secretary of Agriculture wrote that "the FHA is not attempting to determine whether such rates are considered reasonable in the current money market." This conflict of interpretations clearly demonstrates the need for "reasonable rate" to be precisely explained. Furthermore, the definition of "reasonable rate" must allow the relending rate to fluctuate with money market conditions.

In 1962, FHA began a program of making loans to associations for the purpose of providing rural residents with outdoor recreational facilities. A recent investigation by the General Accounting Office (August, 1971) concluded that projects financed by the FHA benefited only a limited number of rural residents. In fact, included in the GAO review were 14 projects for golf facilities which served less than four percent of the rural residents in the areas in which they were located. GAO also found that some FHA financed projects served primarily urban rather than rural residents. In other cases, facilities established restrictive membership policies creating, in effect, private clubs build under a public program. FHA financed projects also, competed with existing projects, and often included land and/or facilities which were in excess of project needs.

The GAO report underlines the disregard for project objectives and for statutory intent which has characterized the FHA's administration of its lending programs. It is difficult to understand expansion of the scope the range of the Farmers Home Administration, particularly in the absence of corrective measures geared to end abuse of the discretion granted in the existing Act. The following letter suggests measures which would correct the problems outlined above.

Hon. James V. Smith,
Administrator, Farmers Home Administration, U.S. Department of Agriculture, Washington, D.C.

Dear Mr. Smith: As requested, we are pleased to submit herewith recommendations from the undersigned Committee of the Investment Bankers Association which we suggest be incorporated in your policies to permit conventional capital to participate in municipal waterworks and sewer projects now being Federally financed wholly by the Farmers Home Administration (F.H.A.).

1. In all cases, at the *initial point* where F.H.A. is called in at the local level to discuss assistance with an applicant, an investment banking firm should make an investigation and submit a written opinion to confirm that it is not feasible for the applicant to obtain the desired amount of financing in the conventional capital market at reasonable interest rates. This should be done before F.H.A. makes a financial analysis. The investment banking firm should have reasonable time (perhaps fifteen business days) upon receiving engineering, economic, and other supporting data in which to analyse the situation preparatory to rendering the opinion. On the other hand, should such investigation and opinion find that financing from the conventional market is feasible, it should to the extent possible include a statement assuring F.H.A. and the applicant that under current market conditions such financing could be reasonably expected to be consummated successfully. Fundamental to this entire concept should be the clear understanding that an advance financial analysis of the applicant's particular circumstances by a competent investment banking concern is a prerequisite to the entrance of F.H.A.

2. Experience indicates that once discussions with an applicant begin at the local level by F.H.A., these talks lead more often than not to F.H.A. financing, regardless of the availability of credit elsewhere. It is recommended that the F.H.A. not seek applications. If, however, an oral or written promise of F.H.A. aid has already been made, it is suggested that any such agreement shall not become a funded commitment until an investment banking firm has advised F.H.A., in writing, that all or a part of the financing is not obtainable through the conventional market at reasonable interest rates. The transaction of such financing through the conventional market should not be compromised in advance by any F.H.A. inducement of a loan. At this time such loan would be at 5% interest for an amount which, when added to the grant, would accomplish 100% of the financing.

3. F.H.A. should adopt a policy that grants and loans are to be considered separate programs. The proposed loans should be made in conjunction with grants only after *bona fide tests* of conventional capital markets have shown the unavailability of conventional loans at reasonable rates. Such tests should be far more definitive than declination of the loans by two or three local banking sources.

4. F.H.A. policy should clearly define *reasonable rate* as meaning interest rate, not individual user rate per month. The interest rate concept is in line with the ". . . prevailing private and cooperative rates and terms in the community in or near which the applicant resides for loans for similar purposes and periods of time." The preceding phrase is a direct quotation from Section 333(a) of the Consolidated Farmers Home Administration Act of 1961, where this definition of interest rate originated as a directive from the U.S. Congress. Through the years the F.H.A. has always used this original definition for its farmer programs and rural housing lending. It is continuing to do so today. The F.H.A. should employ the *same* definition for its water and sewer loans (under the *same* Section 333(a)) to farmers and rural people grouped together in the form of water and sewer districts and rural municipalities.

We understand that F.H.A. is now requesting a change in the Federal statute, from the present maximum municipal (water and sewer) loan rate of 5% to a Treasury cost-of-money formula. The Investment Bankers Association supports such change and will cooperate to bring it about. There is no question that the

5% subsidized rate has in many instances delayed progress by enticing local officials to try for an F.H.A. loan whether or not the municipality could obtain credit elsewhere. Meanwhile, we recommend that "reasonable rate" referred to above be such as to yield a return at a rate not less than 110% of the average market yield for the immediately preceding calendar month on municipal bonds of the fourth investment grade and of maturity comparable to those of the obligations eligible for purchase by the F.H.A. Another alternative might be to use the Treasury's cost-of-money (plus 1%), maturity for maturity, similar to a formula utilized by F.H.A. for certain individual rural housing loans. There could be other formulas that would be equitable.

5. It is recommended that the relative proportion of the grant and loan for a given project be such that conventional funds can be attracted to the loan portion. This would release F.H.A. monies for applicants which cannot obtain credit elsewhere. Conventional funds can be attracted only when the annual operating income minus annual operating expenses provides annual net operating income sufficient for customary market coverage of loan debt service, beyond a break-even point. Without conventional coverage and consumer rates in support thereof, it would be unlikely that F.H.A. could be relieved of any portion of the financing. Although it is recognized that social implications are involved when coverage exceeds debt service requirements, it should be remembered that the ultimate investors, not the underwriters, require such protection. More important, though, conventional coverage is consistent with sound banking practice and in the long run works to preserve the applicant's credit standing.

6. In cases where conventional capital sources cannot underwrite the loan portion for an applicant, it becomes especially important that the obligations taken by F.H.A. are in a form which can be marketable at a later date as a Farmers Home Insured Note. We are aware that, at this time, there is no centralization of obligation standards and covenants from State to State. Moreover, present F.H.A. policy with regard to such mechanical features as denominations, maturities, call provisions, etc., are at variance with conventional methods. The I.B.A. would be happy to provide a committee to cooperate with F.H.A. in attempting to standardize all such obligations, with a view toward trying to work out a form of promissory note which will be marketable.

7. Investment bankers are available *nation-wide*. Their assistance to F.H.A. can be valuable in the determination of credit elsewhere. To this end, we have suggested, in paragraph 1 above, that an applicant seeking Federal assistance through F.H.A. have the service of an investment banking firm experienced in municipal bond financing from the inception of the project. Evidence that competent banking services are being provided to the applicant should be furnished in writing to F.H.A. There is also the possibility that a dispute could arise between F.H.A. and a local community with regard to credit elsewhere. The I.B.A. would cooperate to furnish members to a national review committee to arbitrate such disputes. No such industry-government cooperative or liaison group now exists.

8. Compensation for investment banking services should be based upon the overall project and the total amount of the applicant's financing. Such compensation should rightly be considered an eligible and fundable item of project cost, the same as engineering, legal, accounting and other similar costs of the project. It should also be remembered that there is a difference (not fully recognized heretofore) in the type of knowledge and counselling that can be offered by bond attorneys as compared to investment banking firms. As a matter of fact, a competent investment banker can effect efficiencies in time and money for an applicant by coordinating his counsel with other problems and costs, such as those in connection with the engineering, legal, and accounting.

Respectfully submitted.

William S. Magnus, Cincinnati; Robert M. Kirchner, Denver; L. F. Murphy, New Orleans; John E. Petersen, Washington, D.C.; Glenn R. Schultz, Little Rock; Alvin V. Shoemaker, New York City; Arthur Tresch, Pittsburgh; A. J. Warner, Louisville; Robert H. Wordeman, Cincinnati; Stanton Aby, Minneapolis; John F. Fogarty, Kansas City; David E. Hartley, San Francisco; William R. Hough, St. Petersburg; Donald A. Meyer, Seattle; Peter C. Mohr, Montgomery.

Cochairmen.

Mr. Fogarty. One example of this was the program the Economic Development Administration used to follow on many loans in depressed areas, where they would take up to 65 percent of the loan in a subordinated role if 20 percent could be underwritten from the private market in the primary role; and then the remaining 15 percent was equity money or community money which occupied a third role—and this worked beautifully.

That hasn't happened in a long time. Now the Economic Development Administration takes it all. In that practice we think that there is a little lack of expertise and a little carelessness.

Mr. Murphy will further expand on this. He has worked with the Farmers Home Administration, and has had a number of meetings with their entire top staff. I am going to ask him to tell you a little bit of his experience.

Senator Humphrey. Yes, indeed.

STATEMENT OF LEE MURPHY, LADD DINKINS & CO., NEW ORLEANS, LA., REPRESENTING THE INVESTMENT BANKERS ASSOCIATION OF AMERICA

Mr. Murphy. At this point we would like to take a few moments to discuss the problems that have been encountered with the Farmers Home Administration handling of public facility loans. A number of these difficulties would, in all probability, occur in the application of S. 2223.

Even though FHA's mission is to provide funds for vital public projects in rural areas where credit is unavailable from the private sector of the market, we have found the FHA ignoring congressional intent by lending to communities that could obtain credit elsewhere.

In addition, and as we have pointed out to the FHA in previous testimony before this committee, many of the issues that are financed by FHA—which could be privately financed are made unacceptable to the private sector because the bond issues have been structured incorrectly or have contained unusual and unecessary provisions making them unacceptable to private investors—such as lack of proper bond indentures, faulty call provisions, unrealistic structures, et cetera.

A further serious problem has been the allocation or division of the grant and loan moneys. Here we have found FHA promising grants of considerable size if the community accepted an FHA loan. Wouldn't the congressional intent be followed more closely if a grant aided a community to finance through the private sector?

Further, the FHA lending rate at the present time is frozen at 5 percent which, as you know, is lower than rates have been in the marketplace for the last few years. Obviously at this rate there is and will be no lack of borrowers from FHA.

In 1962 FHA began making loans to provide rural residents with outdoor recreational facilities. An investigation by the General Accounting Office in August 1971 states that these loans only benefited a limited and select number of the residents involved. In fact, it was reported that 14 projects for golf facilities were found which served less than 4 percent of the rural residents of the area.

However, more disturbing than this was the fact that 29 percent of the borrowers were delinquent in payments on these loans.

I might add that in our meetings with FHA earlier this year some considerable concern was expressed as to the default records on a number of FHA loans.

In summarizing this aspect of our testimony, is not the question basically this: "In view of the fact that there are not enough funds to finance these programs—shouldn't we encourage all borrowers to utilize the private sector of the market to its fullest extent before we utilize Federal moneys?"

(The attachment to the statement of Mr. Murphy follows:)

CRITERIA FOR FEDERAL CREDIT ASSISTANCE TO COMMUNITIES

Any need for credit assistance should be firmly established and carefully documented.

Once a particular need is demonstrated, then the credit assistance mechanism used to meet that need should be designed to avoid unfair and wasteful competition with the private capital market. Wherever possible, it is better to allow the market mechanism to continue to allocate credit among competing uses.

Credit assistance programs should be designed so as to clearly reflect the subsidy they contain and the other costs entailed.

Credit assistance programs should be as simple and straightforward as possible. They should not lead to a proliferation of new bureaucracies and institutions to handle each particular problem.

Credit assistance should not constrain the freedom of action and ready access to the market on the part of all State and local governments.

Credit assistance should not be used instead of grants-in-aid where the latter are preferable and required.

Senator HUMPHREY. I hope that we will be able to fashion legislation here which will encourage the use of the private market with the proposals that we offer to be short of sweetness in the sense that they will take a share of the loan, but not necessarily the lion's share, the great share. I think these participating loans have great merit. We have had discussions about it with other witnesses, about FHA being able to have the insured loan program and the participating loan program, like the SBA or Small Business Administration.

And I was rather interested in what you said here, Mr. Fogarty, about the EDA. I didn't know that EDA has stopped that practice: that is, a participating loan where you have about 15 percent local equity capital.

Mr. FOGARTY. Right.

Senator HUMPHREY. Or in kind, I suppose, but a local equity, you could call it—and then 65 percent would be EDA——

Mr. FOGARTY. Twenty percent in the open market.

Senator HUMPHREY. And 20 percent in the open market.

Mr. FOGARTY. We haven't seen the 20 percent in the open market for a number of years. I think perhaps they are getting 15 percent in the community, but the EDA is taking the rest.

Senator HUMPHREY. But, with the desperate need for capital we ought to be tapping every source that we can and finding every way and means of being able to do it.

I want to clear with you that I am not interested in developing a mechanism that stifles the flow of private capital into the community need and job development, economic development. What we ought to be looking for and what I hope we will be looking for, and what we will come out with, is something that stimulates the flow of private capital and that this bank proposition and the title I and II, however we ultimately design it, are supplemental, not to supplant what you are doing, but supplemental.

And I am going to say to you earlier what I said to other witnesses, that after we are through with this testimony and after you have made your presentation, and we have some cross-examination questioning here, that as I mentioned yesterday, I want your staff people to meet with our staff people, go over your suggestions and see how we come out, and see what solutions we can find, what modifications or adjustments. We may not agree, but we may in many instances. Let's see what we can do and that is the instructions to our staff for people of your quality that come in here with your knowledge of banking and background.

We have said the same thing; as you have noticed, to the rural electric people here, and to the independent bankers; we have met with the independent bankers and we have said it to some of the farm organizations. We want their advice.

Now, go ahead with the next presentation.

STATEMENT OF THOMAS MASTERSON, UNDERWOOD, NEUHAUS & CO., HOUSTON, TEX., REPRESENTING THE INVESTMENT BANKERS ASSOCIATION OF AMERICA

Mr. MASTERSON. Senator, you have made my presentation for me, and I couldn't more wholeheartedly agree with your comments. It is the thrust of my remarks to simply echo and agree with what you have just said, that it is our hope that the purposes which you are trying to serve in this legislation can best be served by combining the resources of the public and the private sector.

We believe that to the fullest extent possible the resources of the private sector should be utilized, and the funds from the public sector—the Federal sector—should be available only as a lender of last resort.

We have some suggestions which we would like to offer in this connection, both in keeping with this legislation and in keeping with our attitude towards the Farmers Home Administration program. One would be that we feel that eligible borrowers should be required to offer their bonds for public sale in the open market within the interest rate limitations imposed by State law.

Secondly, we feel that bonds should be offered, as Mr. Murphy has suggested, in a readily marketable form, in a manner designed to produce the lowest possible net interest cost for the community.

Finally, we feel that the interest rate specified in the Federal loan program for a Federal bank should be at least competitive with rates in the open market.

Senator HUMPHREY. I think we do provide that in title II here.

Mr. FOGARTY. It is just a little vague.

Senator HUMPHREY. You may want to take a look at that, but that was the intent. And if there are loans that have to be assisted, we will set up a real way of identifying that assistance so that it isn't covered up. The idea was to get it out in the open. If we are going to subsidize a loan, let's say we are, and not try to put it under the table and fool somebody.

Mr. **Masterson**. You can appreciate that our concern from this point arises from experience with the Farmers Home program.

Another point would be that we feel that participating communities should have the right to redeem securities held by the bank at any time, despite the fact that there might be an absence of call provisions in the bond indenture. Many local communities that prosper and grow would desire to pay off their bonded indebtedness faster, and perhaps redeem it and reissue it at lower rates of interest in the public market.

Other things could be considered. But, at this juncture I think it would perhaps be best to leave it to a discussion between our staff and the committee staff, as you have already suggested.

We would like to point out to you some of the innovations which we are attempting in the private sector these days to lower borrowing costs for smaller units of local government. Some States have created, and others are in the process of creating, municipal bond banks to pool the issues of small units of local government into a larger issue to bring to the public market as one big block of bonds. Vermont has done this.

Senator **Humphrey**. How do they do it? What is the formula for that?

Mr. **Masterson**. In the case of the State of Vermont, we had an issue last December 15 in which they pooled some 47 local communities, many of them nonrated bonds, and put them under a State bond bank. In this instance, they did not lend the full faith and credit of the State but merely lent the credit of each one of the communities to the credit of the others. And by pooling these issues they sold them as a double-A rated bond in the open market, and got a very favorable rate of interest.

In your State, Minnesota, there is a program underway by which the State has agreed to guarantee the obligations of small units of local government. This is another great step forward and I compliment your State on its progress in this area.

This type of legislation is under consideration in innumerable States and we commend it to you as one of the things which the private sector is doing to accomplish the goals which you seek in this legislation.

Senator **Humphrey**. I think we ought to note for our record purposes, and any report that we ultimately make, if we can report out any kind of legislation here, that these efforts are being made now, these innovations are now. And any information that you can present to us in more detail on the innovations in the private bond market, how the public sector is being served by these—this new type of consortium arrangement, pooling arrangement—would be very helpful. I think that we want to get that into our record. We are going to publish a committee print of the Federal programs that are of help to rural development.

I think we ought also to have as many instances in there, examples of private programs of help, as well as what we are doing at the State level, like Vermont. I remember this Vermont issue. I can recall that it was in the Wall Street Journal. I saw an ad about that.

Mr. **Masterson**. It got a great deal of publicity.

I would suggest that there is another new program which we feel is very significant in which private insurance companies are insuring the debt of small units of local government. This is just getting off the ground, perhaps this month. In this connection the insurance company is for a fee guaranteeing the obligation of that small unit of local government to the purchaser of the bonds. And in doing so they also are getting a "double A" rating in these small credits. And we anticipate that this will be a great savings to many small borrowers.

Other devices are being used. In my State, for example, Texas, a municipal advisory council has been in existence for some 10 or 15 years. Our units of local government have benefited from the use of greater reporting activities, better information, better credit flow, the establishment of standard procedures for bookkeeping and accounting at the local government level; and if you will permit me, as a Texan, to say this: I think the record will reflect that Texas municipal bonds, in large measure as a result of these efforts, sell at premium prices in the market today.

There are still other devices which the private sector is involved in and engaging in and without taking further of your time today, I would again suggest that our staff will be glad to help you.

Senator HUMPHREY. I've got to speak to the California State Municipal League in San Francisco Monday, and I would like a little compilation. You have Mr. Peterson down there; he is a good sharp man and I would like a little compilation of these things that have been developed, because there is always the tendency, when we talk to government people, to talk about what government can do for government. I would like very much—and generally, you know, when you are a Federal official of Congress, when you are always talking about what Congress can do and the Federal executive branch—I would be interested in a kind of listing of these; I don't mean just a laundry list, but a little explanation, to try to toss that out, to get some of these other municipal officers thinking in these terms, because every legislature responds somewhat to the call of the local city council and mayor.

Mr. FOGARTY. I believe they are in our lengthy statement.

Mr. PETERSON. Senator, we have appended it to our main testimony.

Senator HUMPHREY. I will steal it as if it is original. One of the greatest traits of public officials is plagiarism.

Mr. MASTERSON. That concludes my remarks, Senator, except to say that I think one of the real problems that we have encountered in Federal programs to date is that they tend to be counterproductive to the desires and goals which they are set out to create: in the Farmers Home Administration program today there are delays up to 2 years between the time of application and the time of funding. And this is an area in which the carrot of 5-percent money is so attractive that borrowers are willing to wait to obtain that, whereas costs continue to rise and escalate, as you are well aware, to the point that the fact that this is an opportunity or seems to be an opportunity, can actually turn out to be a very costly experience.

Senator HUMPHREY. That point you raised in your discussion; I think that is something that we ought to take careful note of. Somebody says: "I can get a 5-percent loan if I just wait." And in the meantime the costs of construction have gone up. Some of these communities also have issued their own bonds as a participating part, and they have that money hanging around that hasn't been invested. There are real delays today that raise costs. And I think it is a valid criticism.

Mr. Fogarty. Mr. Chairman, I think we should add one thing: we are concerned about rural communities, because basically that is where our businesses are, but also we are a little concerned about the Federal Government. We have the responsibility of financing it, too, and that is not getting any easier.

Senator **Humphrey.** I don't want to take that on this morning. I would like to stay with communities of less than 50,000.

Mr. Fogarty. I am with you.

Senator **Humphrey.** It does become a little bit difficult to finance the Government.

Anyone else here?

Mr. Peterson. I have no statement.

Senator **Humphrey.** You were kind enough to give us advance copies of your testimony. And we have some questions that are worked out here for the purpose of just getting a little more information and some of them may be rather provocative. For example: on page 4 of your testimony you speak of the small borrower. And I just wonder, what is your explanation for the fact that rural communities are required to pay higher rates for longer term bonds. Also 12 years isn't very long when we are talking about rural development.

Mr. Fogarty. Twelve years is an average. For example, most communities issue 20-year serial bonds. So the average length of that loan is 12 years, because they are paying off some each year. So that is why we have that.

Now, there are 30- and 40-year bonds, which cost more for any sized community, a little bit more because the question is: what happens to a town of 3,000 over a period of 40 years? A tornado might hit it, and its chances of hitting the town and wiping it out over a 40-year period are greater than over a 20-year period.

Tom had a lot of computer work done in this area. Maybe he can add something to that.

Mr. Masterson. I can say to you, Senator, that we became concerned about the lack of information on this point. And we began to compile statistics merely on the second quarter of this year: 1971, and this is the answer which we get from a very preliminary study of the subject.

I would be happy to furnish it to you if you would like to look at it, not necessarily for the record, but for your own information. It is simply a computer printout. It does not draw any conclusions, but it does list the issues we sold during this second quarter. And I think the interesting thing about it is that it points out many, many issues of $75,000, 100,000, $150,000, that sold at 3¾, 4, 4½ percent, and rates such as this, during the second quarter of 1971. It is a very interesting study and I must be frank to admit that I didn't realize that the small borrower was doing as well as he is in today's market.

Senator **Humphrey.** The rates are down some, then, aren't they?

Mr. Masterson. Yes, sir; and I would suggest to you, just picking a page at random in here—perhaps you could look at it. This is the size of issue and this is the interest rate on the far righthand column. I just opened it without regard to any specific page, but you can see the size of those. The columns are arranged by size of issue and when you see the interest rate which those borrowers paid on those very small issues, it is quite impressive.

Senator HUMPHREY. Yes. They run through 3 and 3.9. And there is one up here, that Dade County Port Authority, that must be a long term one.

Mr. FOGARTY. That is one of those for the airport where the authority leased to about 20 airlines.

Senator HUMPHREY. Dade County Port Authority special, it says. Is that $24,800,000?

Mr. FOGARTY. Yes.

Senator HUMPHREY. Eight percent.

Mr. MASTERSON. A $24,800,000 issue.

Mr. FOGARTY. I think it was for Eastern Airlines.

Mr. MASTERSON. The $24 million issue is a very large one. The point of our discussion is that those at the top of the page are the small issues, and they are all doing very well.

Mr. FOGARTY. New York City a few weeks ago sold an issue at 7½ percent.

Mr. MURPHY. That is what I was going to say, Mr. Chairman: there is a market psychology here. Take the three of us sitting at this table—I could sell Cottonport, La., at a better interest rate than New York City, because I know where to sell that in a given area.

Mr. FOGARTY. Or Philadelphia or Boston.

Mr. MURPHY. Or any others.

Senator HUMPHREY. I understand.

On page 3—this is just a commentary—where you say there is excessive concentration on costs of the free market, my question is: do you feel that the credit market should be responsive to national priorities, such as rural development and environmental protection? What it really boils down to is: some loans are better than others from an economic point of view, but how do we make this private credit market responsive to certain priorities, things that we just have to do? When you get into it it may be easier to build a particular kind of industrial plant that has a guaranteed earning or relatively assured earning than to launch a program of environmental protection that requires a good deal of public facilities.

And that is where we run into the problem of the credit market. And it seems to me that what we ought to be trying to fashion is a way to get the private sector's money, going more and more into the industrial and economic development in cooperation with the other part what we call "public facilities." I don't think that the private market can finance all of the economic development, because some of it is pretty risky and therefore you need participating loans. But, we are trying. The argument comes up: Can you get industry to come to a town when it doesn't have a sewer or water system, and good schools, et cetera, or does it require good schools, a water system and so forth to get industry to come to a town? Which comes first, the chicken or the egg? And I guess when you really get down to it and look at it, it has to develop together: it really does.

Mr. FOGARTY. I mentioned this to you yesterday about Metrecal. They went to Mansfield, Mo.; and they required tremendous water supplies. And Mansfield told them they would have the water if they put their plant there, and they did.

Senator HUMPHREY. Of course, that depends on leadership. You have to have dynamic leadership that has some sense of discretion and good salesmanship in terms of their public financing.

I just thought that we ought to vote—at least from my personal point of view as a Senator and as an individual—on the question of whether the credit market ought to be responsive, at least to some degree, to national priorities on rural development.

And then on page 6 you have a statement here which I want to question. You are talking about the different titles: title I and title II and you say: "Evidently this gives duplicative authorities to both FHA and Rural Development Credit System." It is our view that there is no duplication. Applicants that are not eligible for title I assistance, may be eligible for title II.

Mr. FOGARTY. John, do you have a comment on that?

STATEMENT OF JOHN PETERSON, DIRECTOR, MUNICIPAL FINANCE, INVESTMENT BANKERS ASSOCIATION OF AMERICA

Mr. PETERSON. The functional areas that can be assisted are indeed the same, and I think the problem that we are trying to foresee is this: When you fully get into the substantive difficulty of designing your eligibility requirements, which program is going to have jurisdiction? In other words, you are going to have concurrent programs. One may not be eligible for title II, and therefore it is eligible for title I, and vice versa, but you are going to be running concurrent programs. I think the Administration suggested simply to coalescing them into one of the two titles.

Senator HUMPHREY. The point I make is that title I is the social development, the soft loan approach, which requires a certain amount of grants and low interest rate, et cetera. That is the FHA-type of approach, which has a social objective tied to it.

Title II is much more like a regular banking structure. Now, we do find, under title II, some loans that require what we call "equalization payments." But, the loan is made on the basis of the going rates of interest, because you have to get your money for title II, with few exceptions, in the private money market; you have to bring that money into this banking structure.

It looks like we might be duplicating; we ought to take a good look at that language. I think you have flagged something here for us which I will put you to work on.

Now, yesterday the representatives of the Independent Banker's Association wanted to make that statement that you have on page 7 where you say:

> One of the purposes of the system as contained in section 201(b) of S. 2223 is that it is the policy of Congress "to bring rural credit needs to effective contract with the great central money markets in the nation."

And our banker friends yesterday, the Independent Bankers, said that they wanted that to be an even stronger statement. I don't know how they meant it when they said:

> Yet the implication of the provision in section 301 is that preference will be shown to communities and areas that have "demonstrated and who have established records of financial stability."

I think that the Independent Bankers were saying that they felt that there was a need to fortify that statement in our bill. I don't quite see what the comment is here on that.

I guess we will just pass that.

Mr. FOGARTY. I might say this, Mr. Chairman: This is your home ground. For example, for years St. Paul Fire & Marine Insurance Co. has been a purchaser from us of small rural securities. But they know the area, and I would say that that is typical of financial markets of the Nation that the rural areas are in contact with.

Senator HUMPHREY. On page 8, just running down it quickly; you have here—

> We endorse the intent of such language, which is to restrict lending assistance to hardship and high-cost cases. But, to assure adherence to this intent, it is necessary to be much more explicit of what is meant by "available" credit and "reasonable terms and conditions."

And I would suggest that that is where we get together and see if we can't more specifically state that language so that we don't leave it fuzzy.

Mr. MURPHY. We are having a discussion with the FHA on that now and they are cooperative.

Senator HUMPHREY. On page 9 you talked about this: You say:

> Similar provisions are found in the Farmers Home Administration water and sewer loan program (which would be greatly expanded by title I of this bill) and the results have not been happy.

You have discussed that on the interest rate—you are discussing this whole situation of the interest rate and the delay and the lag time.

Mr. FOGARTY. We have some other things in the appendix.

Senator HUMPHREY. Now, when it comes to title II you know that we do not put a maximum on the interest rate.

Mr. FOGARTY. Right.

Senator HUMPHREY. And that is why I was trying to differentiate here a moment ago.

On page 10 you say:

> First, there is a cost of duplication of program overlap that is incurred by the would-be community that must plod through program requirements and certifications in the hope of getting a loan at preferential rates.

Mr. FOGARTY. That just goes back——

Senator HUMPHREY. That goes back to your discussion of the delays on that.

I think we ought to ask the FHA people to give us some better documentation as to their processing, the time that it takes and what the effect of that time is on the cost of the project, and what it really means ultimately in terms of an actual interest rate, because the interest rate relates to the principal. But if you hold the project back, the costs mount. What does it really mean in terms of interest rates?

Mr. FOGARTY. I believe they would like to have the relending rate upped and not have that statutory ceiling of 5 percent. They are paying 8 percent to borrow.

Mr. MASTERSON. It is also quite obvious that if the private sector can relieve FHA of a substantial percentage of its loans we can expedite and hasten the approval of the remainder.

Senator HUMPHREY. I just want to note for your attention a comment that we would like to make pertaining to your statement that we are aware that we think that title II makes full participation and part ownership in the rural development banks by local and State governments and their areawide multijurisdictional and planning and development districts and therefore we think we are tieing in very carefully that interest into this proposal, and not in a sense weakening the local participation or bypassing them. I think that it does strengthen it. You have here some emphasis about the importance that future credit systems directed toward State and local facilities should be aimed to strengthening rather than reducing the role of State and local governments.

We feel that the kind of development we have here, using local banks, using the multicounty financial agencies, and asking those borrowers to actually participate and own a share of the stock, own a share of the bank, that they do take a greater interest in it. And of course, as I said to other witnesses: The planning of this is not done on top; it is done on the bottom. And we are not trying to let a regional bank tell somebody what they are going to do; the regional bank is there to service the local authorities, the local banks and local government units, the multicounty units, the districts, the city, the village or whatever group it is that seeks to use the facilities of this bank.

I am not going to go over the balance of those comments. We have noted, and you will see it in looking at a number of places in the testimony, where I think our two staffs ought to lock horns, so to speak, and see if you can come up with some better understanding.

A number of our witnesses have said that the great need of rural America is for available credit, not theoretical, but available credit. They said that the financing requirements are far beyond what is available under our present regulations or present money supply . . . or the present capacity of local governments to finance their own developments.

Do you concur in that general observation?

Mr. FOGARTY. I don't think I do. I can give you my best experience. We have, I would say, about 11 men who do nothing but travel in calling on small units of government seeing how we can help them.

After all, this is the merchandise that we exist on. So we are out looking for loans and it is a rare one that we can't handle. One of the problems that we do find is this: You can authorize loans to communities, but if the people won't vote the bond issue, there is nothing that you or I can do about them making a loan. And that has become a real problem throughout the country.

Twenty years ago bond elections were just sort of the routine, you assumed that they would be carried. But it is a rare one now that does. I happen to be in a State which takes a two-thirds vote and it is pretty hard to do.

Mr. MURPHY. I don't think capital would be available in situations where the project is not feasible. Suppose you want to build a water supply for 40 people and its costs $250,000? I don't think we would have the capital available for that. And that is one of the things that the FHA officials are concerned about that they mentioned; that they are financing some of the projects that aren't feasible and they are already having defaults.

Supose they had to take this paper and dump it in the market. It wouldn't sell; it is a default. The only reason that the number of defaults hasn't been greater so far is that most of them escrow interest in this initial period, and they are still arriving on this interest escrow.

Mr. **Fogarty**. This comes to your determination, isn't that a national priority?

Senator **Humphrey**. Yes.

Mr. **Masterson**. The Congress, in my judgment, must determine that this is a national priority, and provide greater assistance to this type of borrower in terms of a higher percentage of grant funding. I happen to believe it is an important national priority. But I do not think it is fair to impose water and sewer rates on a small customer who happens to live in a situation, such as Lee suggested, where there may be only 40 connections to a $250,000 system.

They may have to pay five times the rate that I pay for my water. That is not fair, but it is inevitable if you build that size system for that number of customers.

Senator **Humphrey**. One of the advantages of the multicounty planning system is that you get bigger areas and thereby have more users. For example, for public facilities. We have one now is northern Minnesota that covers all of St. Louis County. It is a sewer and water district. It is the first time one has been authorized.

Now we can take in all of these little towns up on the Iron Range, into one large, hopefully, modern, efficient waste disposal system. Or, that could fall under the Vermont-type of bond issue that we are talking about, where a number of communities pool their resources. You have a pooling-type of bond issue, or your State, as you have indicated, has the insured-type of bond program.

But again, we have had people down here talking to us about how FHA can't be of any help because it is too big a project for them. And they are talking about the need of long-term money. These people feel, of course, that their countryside is going to be there for 20 to 40 years. And they need long-term money and a fairly reasonable rate of interest. Thus far, of course, they are only in the preliminary stages of their work and haven't had to go to the private market.

But again, it has been my view that it is much easier to market these types of bonds, to do this type of financing, if you have cooperative financing between the private sector and the public sector.

Now, that is our design here. We are trying to work this thing out. We are not trying to take over the credit business. There is no bank that the Government of the United States can establish if it takes over the entire system, which I don't think it will or should, that is going to finance anything, or finance all of our needs.

These are supplemental financing structures. I hope that we are not only supplementing public facilities, but that we are financing something that will earn some money. Quite frankly, we have heard testimony from so many people—on the road we have heard from many business people, good conservative people who said:

> We just can't get financing. We have been in Oklahoma, Nebraska, Georgia, Iowa, and South Dakota, and we have heard lots of witnesses. And maybe they are not talking with the right people, but a number of them say very frankly: "In order for us to get a business enterprise or industrial park, or in order for us to get a new manufacturing plant we have to be able to get the financing."

Mr. **Masterson**. Not for community development projects, water, and sewer systems.

Senator **Humphrey**. Yes. And even for private enterprise themselves because present banking restrictions sometimes prevent or limit financing for that kind of thing also.

Mr. **Fogarty**. I think commercial banks are very reluctant to commit money for a long term, because they do have to watch liquidity.

Senator **Humphrey**. Yes, they do. Of course you are in the long-term business and I think that we need to get your advice even more than we do from the commercial bankers because we are talking here about long-term enterprises; we are not talking about operating capital and we are not talking about the short-term loan.

I thank you very much. I could spend a lot of time with you but we are going to have to come back to you anyway, later on, before we are through with this proposal.

And Mr. Peterson and Mr. Small will work with Mr. Baker and other members of our committee. And we will come back to you with what we think is reasonable, and we will present your suggestions to every member of the subcommittee. We will see that they all get it.

Mr. **Fogarty**. Thank you very much.

Senator **Humphrey**. The committee will recess until 2 p.m.

(Whereupon, at 12:20 p.m. a recess was taken until 2 o'clock the same day.)

(Additional information submitted by the Investment Bankers Association is as follows:)

INVESTMENT BANKERS ASSOCIATION OF AMERICA,
Washington, D.C., October 18, 1971.

Hon. HUBERT HUMPHREY,
U.S. Senate,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: In response to your request for suggestions to improve the operation of the Rural Development Credit program envisaged in S. 2223. Amendments to the Consolidated Farmers Home Administration Act of 1961 and the Federal Rural Development Credit System, we respectfully submit the enclosed memorandum.

The memorandum is addressed to three phases of the rural development credit mechanisms that would be established under Titles I and II of S. 2223. First, it makes several technical suggestions relating to the execution of the existing Farmers Home Administration community facility loan programs. The FHA programs are considerably expanded under Title I of S. 2223.

Secondly, we suggest that Title II should be dropped entirely or at least streamlined to retain only the Interest and Capital Augmentation grants that are to be established under Subtitle G of Title II. These constitute the true and obvious subsidy elements contained in that Title and, if they are to be implemented, this can be done without setting up a sprawling superstructure of new development banks and councils.

The third and last set of suggestions are submitted in the event that it is felt that the elaborate new Rural Development Credit System structure set forth in Title II is mandatory. While we would view this as lamentable and ill-advised, we can, in that event, suggest a number of technical and procedural amendments that would help prevent wasteful and unsound financing activities on its part.

In closing, we want to reiterate our belief that great care must be exercised in designing a program that will be of significant long-term importance in achieving rural development. It is our belief that setting forth specific requirements on both the eligibility and execution of such credit assistance programs and working for their combination within the existing administrative structure will pay dividends in the form of a more rational and direct delivery of available funds to problem areas.

I have taken the liberty of sending copies of this letter and memorandum to other members of the Subcommittee and to Mr. John Baker.

Respectfully,

JOHN F. FOGARTY.

(The memorandum is as follows:)

RECOMMENDED CHANGES IN S. 2223, AMENDMENTS TO THE FARMERS HOME ADMINISTRATION ACT OF 1961 (TITLE I) AND FEDERAL RURAL DEVELOPMENT CREDIT SYSTEM (TITLE II)

I. CORRECTIVES FOR THE CONSOLIDATED FARMERS HOME ADMINISTRATION ACT OF 1961

In several appearances before the Senate and House Agriculture Committees over recent years, the Investment Bankers Association has pointed out FHA practices which unfortunately have served to direct assistance away from those borrowers that Congress has sought to assist. (The primary sources of contention, and the substance of our experience with Farmers Home Administration, were outlined in a memorandum attached to our September 23rd testimony.)

Based on our experience with FHA, the high level of application backlogs, and past rejection due to lack of funds, it is evident that available assistance must be channeled to those for whom it is intended. To accomplish this, we recommend the following set of amendments to the Consolidated Farmers Home Administration Act of 1961:

1. Section 307 of the Consolidated Farmers Home Administration Act should be amended by deleting the 5 percent interest rate limitation on FHA loans and substituting in its stead a lending rate derived by formula, reflective of current market conditions. (FHA made this same recommendation in testimony before the House Agriculture Committee last February: FHA Administrator William Smith suggested the use of a cost-of-Treasury borrowing formula.)

Alternatively, we would recommend a different formula. We suggest that the FHA gear its lending rate on community facility loans to one hundred and ten percent of the market yield on municipal bonds of the fourth investment grade. Compilations of such an interest rate series are regularly published in various Federal publications. This formula gives flexibility to the FHA rate and reflects the average interest rates on the most comparable class of State and local securities.

Insert prior to the last sentence of Section 307(a) of the Act the following:

"Any purchase of public debt instruments by the Secretary shall be upon such terms and conditions as to yield a return at a rate not less than 110 percent of the average market yield for the immediately preceding calendar month on municipal bonds of the fourth investment grade and of maturity comparable to those of the obligations eligible for purchase by the Secretary pursuant to this Section of the Act."

2. Section 333 should be amended to provide a more accurate and fairer assessment of a potential borrower's ability to obtain credit elsewhere by explicitly requiring a *bona fide* market test.

Add, at the end of Section 333, a new subsection as follows:

"(f) The applicant, if a public body, to certify that it has been unable to obtain sufficient credit by a bona fide attempt to sell such obligations in readily marketable form at public sale at a rate equal to or below the lending rate as determined in Section 307 of this Act, at the same time the obligations were offered for public sale;"

3. The Consolidated Farmers Home Act should be amended so as to afford public borrowers the opportunity to recall obligations financed by FHA in the event that the borrower is later able to finance his obligation at a lower interest rate. This would offer an opportunity to lower its borrowing costs if, subsequent to accepting FHA financing, improvement in market conditions or the borrower's financial position should make it possible to finance at a lower rate.

At the end of Section 333, a new subsection should be added:

"(g) Regardless of the redemption provisions specified by the obligation of a public body, it shall be agreed between the Secretary and the issuer, that the issuer of obligations held by the Secretary shall have the right to call, at a price not to exceed that price paid by the Secretary plus accrued interest, all or any part of its obligations held by the Secretary at any time upon thirty days' written notice to the Secretary. Before the Secretary shall offer for sale any obligations of a State or local government held by it, he shall give notice in writing to the issuer of the intention to offer such obligations for sale, and the issuer shall have thirty days from the date such notice is received to exercise its option to call such obligations for retirement, refunding, or resale."

4. In addition to the above three procedural amendments, involving the terms and conditions for community facility loans, we recommend that Section 306 (a)(7) of the Consolidated Farmers Home Administration Act not be amended as proposed by Section 105 of Title I of S. 2223. The proposed expanded definition of rural to include units of 35,000 or less could diffuse FHA programs. Such a diffusion, in effect, could deny assistance to the very small communities, which might profit the most from assistance.

Rural communities (particularly those under 1,000 population) may sometimes encounter special financing problems due in part to lack of credit ratings, extremely small issue sizes, or the marginal economic feasibility of the underlying project. Such communities have benefited in the past from FHA assistance. An expansion of the definition of what constitutes "rural" without extremely large increases in appropriations can only exacerbate the problems of backlogged and returned loan applications. Our experience indicates that other than the very small communities discussed above, rural communities meet with success in marketing their debt instruments, particularly when compared to large and highly indebted metropolitan cities. For those reasons we would recommend against expansion of current definitions of "rural" to embrace larger, urban areas.

II. AN ALTERNATIVE TO TITLE II OF S. 2223

It is our conviction, as we stated in our testimony before your Committee this September 23, that Title II of S. 2223 is both unnecessary and extremely cumbersome in its structure. While we continue to hold that position, we nonetheless must take cognizance of the fact that Congress may decide that, as a general matter of policy, the cost of credit should be lowered for selected borrowers who desire funds for rural development purposes.

We are convinced that this purpose can be achieved more rapidly and directly through use of the enlarged powers granted to the Farmers Home Administration under Title I and recommend such an approach. However, should this be thought inadequate, then the direct subsidy program contained in Subtitle G, the Interest and Capital Augmentation Supplements, could be grafted onto the FHA administrative structure set forth in Title I. In other words, there is absolutely no need to create the Rural Development Credit System envisaged in Title II to accomplish the purpose of cheapening the cost of credit or of reducing the amount of borrowing needed (under the capital augmentation payment). While we do not think that these programs are advisable, such a change would at least have the merit of implementation within the existing institutional framework for rural development.

Such a consolidation of programs—both the loan and the interest and capital subsidy-phases—under the newly constituted Rural Enterprise and Community Development Administration in FHA would cure the following difficulties with S. 2223.

1. It would replace the unnecessary, elaborate, and controversial new banking structure, envisioned in Title II. This would lead to considerable economy and make the program simpler and easier to administer. Selective credit assistance does not require a new institutional framework to be effectuated.

2. The problem of program overlap that now exists between Titles I and II of the bill would be obviated. The entire program of expanded and cheapened credit would be left within the baliwick of the reorganized Farmers Home Administration.

3. Maximum usage of existing public and private credit facilities would be ensured, rather than promote their erosion and circumvention as might be the case with the Rural Development Credit System.

4. Energy and resources would be focused into the newly created Office of Rural Enterprise and Community Development Administration, thereby alleviating rather than contributing to, the diffusion of agency responsibility for rural development and the real or potential threat of wasteful interagency program competition.

No attempt has been made to formalize this recommendation in terms of the necessary changes in the language of the bill. However, it would require a restructuring of the Rural Development Equalization Administration to integrate it into the new organizational framework set out for the FHA in Title I of S. 2223.

III. AMENDMENTS TO TITLE II OF S. 2223

If the Committee decides in favor of the banking system proposed in Title II, we would suggest amendments along the same line as we have proposed for Title I, in order to channel assistance to borrowers with demonstrable need. Thus, the following changes are proposed:

On page 12, Section 202, line 9, strike "thirty-five thousand" and insert "five thousand, five hundred".

On page 17, Section 303, line 17, after the word "Conditions.—", and before the words "the terms", insert "(a)".

On page 17, Section 303, line 19, after the words "to be used", insert:

"(b) Any purchase of public debt instruments by the Agency shall be upon such terms and conditions as to yield a return at a rate not less than 110 percent of the average market yield for the immediately preceding calendar month on municipal bonds of the fourth investment grade and of maturity comparable to those of the obligations eligible for purchase by the Agency pursuant to Section 302 of this Act."

"(c) Regardless of the redemption provisions specified by the obligation of a public body, it shall be agreed between the Agency and the issuer, that the issuer of obligations held by the Agency shall have the right to call, at a price not to exceed that price paid by the Agency plus accrued interest, all or any part of its obligations held by the Secretary at any time upon thirty days' written notice to the Secretary. Before the Secretary shall offer for sale any obligations of a State or local government held by it, he shall give notice in writing to the issuer of the intention to offer such obligations for sale, and the issuer shall have thirty days from the date such notice is received to exercise its option to call such obligations for retirement, refunding, or resale."

In order to be consistent, the proposed new Subsection (b) should also be inserted on page 34, Section 508, line 5, after the words "the agency." and before the words "Such regulation". The language should also be repeated on page 46, Section 605, line 11, after the words "rural areas served." and before the words "The loan", except that "Section 302" should read "Section 606".

On page 17, Section 302, line 10, after the words "credit source.", insert:

"Such demonstration, if the potential borrower is a public body, shall take the form of a bona fide attempt to sell its obligations in readily marketable form at public sale at a rate equal to or below the lending rate as determined by Section 303 of this Act, at the same time the obligations were offered for public sale."

The above language should also be inserted on page 48, Section 606, line 13, after the word "conditions", except that "Section 303" should read "Section 605.

INVESTMENT BANKERS ASSOCIATION OF AMERICA,
Washington, D.C., September 24, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Senate Committee on Agriculture and Forestry, Old Senate Office Building, Washington, D.C.

DEAR SENATOR HUMPHREY: Your Subcommittee is conducting hearings on S. 2223 and Amendment 153 to S. 1483 to create new credit banking institutions to provide a specialized form of credit service for rural areas (defined in the bill as "any area . . . not part of or contiguous to any municipality having a population of 35,000 or more").

The proposed Federal Rural Development Credit System would be authorized to provide financial assistance to public as well as private borrowers who demonstrate that needed funds are "not available from any other public or private credit source." Since representatives of the Municipal Division of the IBA are testifying before your Committee with respect to assistance to *public* borrowers, comments in this letter are directed only to the proposed assistance to *private* business enterprises. The Investment Bankers Association represents over 600 investment banking firms with over 2,100 branch offices located throughout the United States. Our member firms are engaged in underwriting, trading, and acting as agents in securities of corporations and federal, state and local governments.

The implicit assumption behind the proposal to authorize a new program of credit assistance for private companies is that they presently are unable to secure sufficient credit at reasonable costs. However, in 1970, despite the downturn in our economy, investment bankers underwrote over $31 billion in new corporate securities for firms of all sizes. During the ten-year period, 1961–1970, the investment banking industry handled either as an underwriter or agent over $220 billion—not including bank loans—of corporate financing.

Focusing specifically on financing for small business enterprises, $223 million of Regulation A issues were filed with the SEC in 1970. These were all issues of $300,000 or less. For the previous five-year period, Regulation A issues totaled nearly $1 billion.

Furthermore, there already are available a variety of federal programs to provide credit assistance to local private borrowers. The proposed Rural Credit Development System would overlap with the existing community development programs of the Departments of Labor, Housing and Urban Development, and Health, Education and welfare and programs of the Economic Development Administration and the Small Business Administration. These latter two agencies alone provided over $3.5 billion of financing to small and underdeveloped regions and business enterprises in the last six years. Any additional proliferation or further fragmentation of federal assistance programs for rural development would be clearly contrary to the President's goal to reduce administrative complexity and program overlap. If any additional credit is needed for these areas, it should come through the expansion of existing programs, not by creating a new complicated and administratively expensive banking system.

During periods of monetary and fiscal restraint some borrowers may be rationed out of the capital markets by both interest rates and the overall availability of credit. However, since federal credit programs do not increase the total supply of saving in the economy, their operations neither increase the aggregate of lendable funds available nor reduce interest rate pressures. In fact to the extent that the free market is replaced as the allocator of limited resources by a federal agency program, a whole new set of unsatisfactory credit demands may evolve, which may be unsound and counterproductive.

We respectfully request that this letter also be included in the printed record of your hearings.

Sincerely yours,

GORDON L. CALVERT,
Executive Director and General Counsel.

AFTERNOON SESSION

Senator HUMPHREY. We will convene the hearing of the subcommittee on rural development.

It is a privilege and honor to have with us Senator Hollings of South Carolina and Governor West of South Carolina.

May I just say, gentlemen, that we have had some very good testimony and some excellent hearings and we have obtained a solid body of information relating to the needs of our rural areas of America. And I am beginning to feel a little ray of hope. We have a committee here that is as united on trying to do something for rural America as you can get without regard to party or without regard to region. And I won't take any more of your time except to say that in the forefront of our efforts, Governor, to do something for our country, and particularly for our rural areas, is your distinguished Senator from South Carolina, Senator Hollings.

And we take special joy in having him come to the subcommittee and be with us. Senator, do you have some statements you wish to make?

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator HOLLINGS. I will file a little prepared statement here without objection, and take this opportunity to present our distinguished Governor from South Carolina.

It is always a privilege for a Senator to present his Governor, but it is equally more so, I would say, a pleasure when you know your Governor is going to appear and know what he is talking about. He has an experience and a feel for the particular subject, because while you, Mr. Chairman, started your political career representing farm groups in Minnesota, this gentleman started his personal career on that farm.

Only last year his little TV shorts showed him as a plowboy behind that mule in Karshaw County, and he has kept that interest going. Immediately after his inauguration he was down into the rural area of my section of the State, out on John's Island, trying to institute a program there for rural development, trying to solve the hunger problem, the housing problem and developing a comprehensive medical service.

The rural areas of America are really the beginning of the problem. I know in this day and age what we try to do, rather than give bandage treatment, is to get at the source. And when you come and talk about urban and ghetto problems, urban crisis, it starts in the rural area. There is no growing rural poverty. No one leaves the city to go out and join rural poverty; we all leave the rural areas to come into the city, because as bad as it is, it is better in the city.

Twenty-eight percent of the rural housing in America is substandard, compared to only 14 percent in our urban areas, and down in our section, the southeastern part of the United States, 66 percent of all rural housing is substandard.

So you could give statistic after statistic emphasizing this and I think this legislation is a must. I don't know how it passed our attention for so long with all the various financing programs, but I join with you and with the distinguished chairman of the Agriculture Committee, Senator Talmadge, on this particular bill. I think this should be one of the phase II or phase III, or whatever these different phases of the programs are, as it immediately puts moneys into these particular programs in contrast to, let's say, a 7-percent excise tax on automobiles.

If there is one thing that is causing us problems, it is automobiles, from a health standpoint, from the environmental standpoint, and from every other standpoint. So, the administration would exacerbate one problem and continue to neglect the long-neglected.

It is with that feeling that I present our distinguished Governor. He is knowledgeable in the field and is doing an outstanding job in the rural areas particularly. His entire program in his inauguration was to start right at this particular point. And I want to listen to what he has to say and I associate myself with his remarks.

(The prepared statement of Senator Hollings follows:)

Senator HOLLINGS. I appreciate the opportunity to appear before this Subcommittee on Rural Development to express my support for S. 2223, the Consolidated Farm and Rural Development Act of 1971.

I am pleased to be a cosponsor of this bill as I feel it will make important studies in the revitilization of rural America.

The rural areas of this country are facing a serious crisis in resources. Migration from rural to urban areas has definitely resulted in terrific population pressures in the cities. But it has also drained the rural areas of the manpower so essential to its vitality. While we are attempting to solve the urban problems, we cannot continue to ignore the conditions in the rural sections. While 14 percent of city housing is substandard, rural substandard housing is 28 percent of the total. In my part of the country, the south, 66 percent of rural dwellings are without either heat, electricity, water, or toilet facilities.

S. 2223 goes to the root of the problem of rural impoverishment in order to make these areas attractive for development. The interest subsidies and direct grants to worthwhile projects provided by the bill will provide the incentives needed to encourage business and industry to locate in these regions of unused potential.

In my State of South Carolina, we have been working long and hard to encourage rural development because we recognize it as the only way to improve the quality of life enjoyed in these areas.

I have the honor of introducing to the subcommittee the distinguished Governor of South Carolina, the Honorable John C. West. Both as Lieutenant Governor, and now as Governor, John West has been an active force in the development of southern rural America. His clear insight into the difficulties that must be faced in revitalizing rural areas shall be of invaluable assistance during this committee's consideration of S. 2223. I am pleased to have this opportunity to introduce Governor West, and I would like to associate myself with his remarks.

Senator HUMPHREY. We are very grateful to you, Senator.

You are a cosponsor, as I recall, of S. 2223?

Senator HOLLINGS. Yes.

Senator HUMPHREY. We now have 50 sponsors and are doing quite well. We have had several Governors who have appeared before our committee and several ex-Governors who are now with the Coalition for Rural America. We had Governor Breathitt of Kentucky and Governor Norbert Tiemann of Nebraska here this morning. They are cochairman of that Coalition for Rural America.

Governor, you are a busy man and I am not going to keep you any longer. We are going to have the statement of Senator Hollings, along with his oral remarks, made a part of our record.

And now we welcome one of the fine and good Governors of our Federal Republic before this subcommittee. We look forward to hearing your testimony.

STATEMENT OF HON. JOHN C. WEST, GOVERNOR, STATE OF SOUTH CAROLINA, COLUMBIA, S.C.

Governor WEST. Thank you, Senator Humphrey.

And thank you, Senator Hollings.

I always appreciate kind remarks even though I know they stem from 30 years of continuous, unbroken friendship and perhaps are colored a little bit, but I still appreciate the remarks. And I especially appreciate the opportunity to testify before this committee on this most vital piece of legislation.

I feel that you, our distinguished neighbor from the great State of Georgia, Senator Herman Talmadge, our own able, highly dedicated and outstanding Senator from the State of South Carolina, the Honorable Ernest F. Hollings and your entire committee, deserve the undying gratitude of our State of South Carolina and the entire country for the farsighted leadership you are giving in the introduction of this legislation. I consider S. 2223 absolutely vital to the future of this great land of ours.

In trying to arrive at an approach to this testimony, recognizing that you have had many capable people giving views, I considered many alternatives, among these the deep research and the cold hard facts and figures, most of which I am sure you have already received from numerous other witnesses. I thought to perhaps delve into the past and offer background on the growth of our country which would justify the position I will take. I even thought to bring numerous witnesses with me and by sheer weight of numbers, show the very real and vital concern of the State of South Carolina for this bill. While any one of these approaches might serve to dramatize our deep convictions, I have decided to instead address myself to an overall diagnosis conceptual approach to the problems facing us now and in the future.

Mr. Chairman, South Carolina has just celebrated its 300th birthday. In the early days, tomorrow was full of promise and men worked for that tomorrow with singleness of purpose and the dignity that comes from building their lives and homes in the greatest country on the face of the earth.

The day has now come when we must attempt to profit from mistakes that have been occurring in the growth pattern of this Nation since those early days. We must analyze what has happened in too many areas of our country and try to profit from it. We must, in some way, strive to return to a day filled with that bright promise of tomorrow rather than observe all too often a day filled with the bleakness of despair. This is exactly what is happening in the larger metropolitan centers. We have reached the point of diminishing return on the income dollar revenue of these areas and are having to pay out a disproportionate cost just for the purpose of trying to maintain a standard of living that is decreasing each year.

We have seen in the past 300 years the growth of sprawling urban giants that swallow tax dollars as they have swallowed the future of their inhabitants. We have seen the rise of bitter reaction to the lack of concern evidenced on the part of too many of these metropolitan monsters * * * and yet how do we manage to stem that tide that is carrying us ever closer to the waterfall of self-destruction? Our population is increasing at an alarming rate and will soon reach unbearable proportions. The high percentage of these new arrivals still head for that urban monster as the moth seeks the candle flame * * * and why? The answer is that the small community can no longer offer a job with a future unless it is one of the very few fortunate enough to have an example of our dynamic and profit-oriented free enterprise system located there. Why is it that other small communities though have not been able to provide these well-paid jobs for their inhabitants? It is simply, gentlemen, a chicken and egg proposition. Unless there is a tax base to build support facilities, without which industry will not locate, such as hospital beds, educational institutions, recreational facilities, libraries, sewage treatment and water treatment facilities, energy capability, and all the rest, it is impossible to attract new jobs and new industry to your community. Without that new industry and those new jobs though, how do we build the tax base with which to construct the support facilities? Too many of our small communities do not have the borrowing power necessary to construct these facilities and so each day that passes they dry up a little more and a few more of their people move to the urban areas and the specter of both urban and rural armageddon looms a little larger on the horizon.

In South Carolina we have been trying for some time to deliberately disperse our industry and so disperse our population; to turn our State into a community in which man can commute from his home in the countryside, from his home where his children can run and play unmolested, and from his home where he may still know the pride of possession to a job offering good working conditions at a fair and just compensation.

After my 4-year term is up in Columbia I am going to run to that spot 5 miles out in the country where I have a fish pond and can get away from other things.

I made an awful faux pas the other day. I went to a Governors' meeting in Atlanta with the Governor of Georgia and after having waited an hour to get into the city of Atlanta I told him that I hoped that no city in the South ever got as big as Atlanta.

At any rate, the ultimate answer seems to place industry where it will do the most good for the community primarily, and through it the incoming business.

Population figures and growth centers have been minutely studied, growth trends mapped and future growth predicted. A detailed study of all services available in any community of our State to industry has been prepared and is diagnosed in light of the needs of the incoming industry.

I might say that the distinguished director of our development board, Bonner Manly, is here.

Senator HUMPHREY. If you don't mind making the introductions, would you identify the gentlemen here with you for us.

Governor WEST. Bonner Manly, who is director of our State development board.

And Lee Herbert, who is director of supporting services.

Our development board has produced a computerized program of manpower facilities. We can punch a button literally and tell an industry what facilities they have in what area, or what labor capacity is and its availability. It is only in that way that we have been able, despite the recession that our country has had for the last 2 years, to keep a reasonable economic growth pattern in South Carolina.

Senator HUMPHREY. What do you mean by the supporting services?

Mr. HERBERT. Manpower services, resource services, and industrial services.

Senator HUMPHREY. That is related to your economic development operation.

Mr. LEE HERBERT (Director, South Carolina Supporting Services). That is correct.

STATEMENT OF J. BONNER MANLY, DIRECTOR, SOUTH CAROLINA STATE DEVELOPMENT BOARD, COLUMBIA, S.C.

Mr. MANLY. If I may emphasize what the Governor is referring to: We have actually canvassed every county in the State as to where the people are. We are the only State who has done this and we have validated our figures against the Bureau of the Census. I told George Brown he was within 1 percent of being correct on his latest census when he checked it out.

Now we are building profiles by county on skill levels of individual people, so that we can place people intelligently and attract industry in the same vein; we can get people and jobs together all over the State.

Governor WEST. We have proved conclusively that people are trainable through our State technical education system under which some 468,000 citizens of South Carolina have been trained and retrained for better jobs in a new tomorrow. This is out of a total population of some 2½ million. The State of South Carolina has invested the financial backing for this program, the citizen of South Carolina, their time an and energy without compensation, and all of our citizens will reap the rewards in an increased standard of living.

Senator HUMPHREY. You have sort of led the way in the schools.

Governor WEST. I might comment that this program was instituted when Senator Hollings was Governor and I had some small part in it on the legislative committee, along with former Governor McNair. As it is said in South Carolina with some truth, that we all three took all the credit we could for it. It was enough to elect us, all three, to higher office several times.

So, there was fortunately enough credit to go around and we didn't have to fight over who was entitled to the most of it.

Senator HUMPHREY. We have heard a great deal about it. As a matter of fact, I know that they put in a new system of Voc-Tech, as we call them, vocational-technical schools, in Minnesota. And they are doing it around the country since enactment of the vocational educational program at the Federal level. But you had pioneered this before that.

Governor WEST. 1961.

Senator HUMPHREY. I remember when we held hearings around here about the vocational-educational program. Your State was always cited as an example of what could be done with these schools. And now it is just catching on; it is getting popular.

Governor WEST. I may say that Mr. Manly was one of the original committee of six that formulated the program under the legislation proposed by Governor Hollings in our committee. Mr. Manly has remained on the board since that time. He was at that time an employee of Owens-Corning, but since then we have got him on the development board.

Senator HUMPHREY. That is an incredible figure: 480,000 citizens have been trained and retrained: 480,000 out of 2½ million.

Mr. MANLY. And they have gone to work. That is the important fact. We have trained for known jobs rather than trained for the sake of training.

Senator HUMPHREY. That is a difference.

Governor West. Two things: You get the motivation of the individual in knowing that if he completes the program his skill would enable him to earn more money. And second, we have had the involvement of the business community, and recognizing that this is a must we are able to tell an industry today in South Carolina—and we have for 10 years—that if you will locate in South Carolina we are not going to give you any substantial tax break or anything, but we will have you a trained work force ready when your plant is completed.

Senator Humphrey. That is remarkable.

Governor West. So we have invested in this program and we find it most rewarding, most productive. We have tried, as a part of our tremendous industrial development program, to disperse industry deliberately throughout our State and we have attempted to profit by the mistakes of some of our sister States, and to have our growth a controlled one. But still we have been unable to place industry in many appropriate places in South Carolina simply because we have not had the support facilities there.

If I might depart from my testimony a moment, let me tell you a story involving both Senator Hollings and I. While he was still Governor and I was in the State Senate, we had persuaded the Elgin Watch Co. to come to South Carolina and to locate at a little town called "Blaine." And one of the inducements we offered that we would change the name to Elgin to get them to come.

Senator Humphrey. You go a long ways down there.

Governor West. Well, the problem was that one of the things they needed was a water system, but the tax base in Blaine was virtually nothing. In fact, it was such an impoverished area I think the total assessed value was less than $5,000 on the books. The chairman told me at the time, when I asked him about the tax levy, he said: "Well, we have just got a tax levy, but we only apply it to the railroad and the telephone company and the power company and we don't tax no citizens."

But, thanks to a grant under the accelerated public works bill—we got a grant of, I think, $90,000 and built a water system. And today that rural community has come alive. The Elgin Co. phased out, but the B. F. Goodrich Co. is there, and provides 400 jobs for this rural community that was dying on the vine.

I think that the Elgin Watch Co., or the Elgin situation is an example of the fact that if we have a vehicle where we can provide the supporting facilities we can get industry and jobs back into the rural area in the environment that I think means so much.

I feel most strongly that S. 2223 will provide a cornerstone upon which the rural areas of our country might build their own economic future and thus assist greatly the economic future of the heavily urbanized centers. By providing available investment dollars to construct those facilities without which an industry will not locate in a community, it is possible for us to help that rural community to build its own tax base and thereby undergird the development efforts in its area. By dispersing industry to rural locations, taking people off the welfare rolls, training them and putting them on the payroll, we are cutting down on the amount of money that must be spent to support through welfare programs the uncontrolled mass growth in our population centers.

Mr. Chairman, I would like to bring to your attention the fact that 85 percent of all the counties in the State of South Carolina experienced out-migration between 1960 and the year 1970. Unfortunately, however, this was not an even out-migration either in geographical dispersion, racial dispersion, or dollar dispersion. Since even though 85 percent of our counties experienced out-migration, 98 percent of all of our counties experienced an out-migration of black South Carolinians, and geographically, while 52.4 percent of our population in 1970 was rural, this compared with 58.8 percent in the year 1960.

What I consider the most serious trend, though, is the statistic that 79.4 percent of all population growth in our State between the years 1960 and 1970 was in the metropolitan areas. I can only conclude that this trend will continue unchecked through the next decade if steps are not immediately taken to shore up our sagging rural economy.

I have included as part of my testimony some hard-cost figures as they relate to the various industrial segments of our State economy. Rather than go into them in depth now, they have been included as an addendum to the outline which is being filed.

However, to summarize, we find the actual investment per employee in new and expanded plants in the State of South Carolina for the years 1960 through 1969 to be $23,343 per employee. It has been projected that the total employee growth through the year 1975 will be 35,400 new jobs in our State.

This, gentlemen, projected by the average employee investment, means that from somewhere will have to come $1,164,711,000. This is a great deal of money for any State, particularly one in the South that has been suffering from the effect of lack of industrial investment for so many years. The projected employment growth by industry type also has been included as an addendum.

When you add to this figure the amount needed to perform those services that are now required of us under law, programs to improve water quality and sewage treatment, health care, school systems, and the like, you can see that our future depends very heavily upon moneys such as the grants under title I and title II, which I feel are completely justified incentives for rural development and the investment in community growth through loans as well. I would personally much prefer to invest my money this way than to spend it to cure urban ills that have resulted from lack of planning.

Gentlemen, we still suffer in this country from a firehouse operation when it comes to answering our country's needs. We wait until we hear the screams of the oppressed or the sobbings of the deprived before we take action. I congratulate you today for what you are doing in establishing for once a preventive maintenance program. Through your farsighted leadership, this country can look forward to a future of secure controlled and vital growth, to a future filled with many bright mornings and the certain knowledge of the good life for all its people.

In South Carolina the air is still fresh and sweet and even down in Charleston we are keeping the air sweet—and man wakes each morning to a day filled with challenge and satisfaction. I pray it will stay this way. The vision of man is limited only by his willingness to see. In South Carolina, as in the rest of the Nation, a man can see not only his future but the future of his generations to come. I have discussed this future with a great many of our top industrial leaders, leaders in the social movement, elected representatives of the people of the State, and they are all strong in their determination to see this bill enacted into law. I would like at this time to read you just a couple of the letters I have received within the past week concerning my testimony today.

And now, Mr. Chairman, I would like to file and to mention briefly, three letters that I think typical. One is from W. W. "Hootie" Johnson, president of the Banker's Trust of South Carolina, who wholeheartedly endorses the bill.

Senator HUMPHREY. We will give you back your original after we have taken the text.

(The letter referred to follows:)

BANKERS TRUST OF SOUTH CAROLINA,
Columbia, S.C., September 15, 1971.

HON. JOHN C. WEST,
Governor of South Carolina,
State Capitol Building, Columbia, S.C.

DEAR GOVERNOR WEST: The future of South Carolina and even the future of our country depends in great part on the dispersal of our population and industry.

Under existing conditions, suitable tax bases cannot be built by small counties. They are, in many cases, unable to generate sufficient revenue from present sources to construct support facilities for working and living. Without these facilities, they cannot attract new and vital industries to their county.

As a banker, I wholeheartedly endorse Senate Bill 22-23 and urge you to use every means available to you to move for its passage. It is one of the most important pieces of legislation to our state that has yet appeared.

Sincerely,

W. W. JOHNSON, *President.*

Governor WEST. And from the vice president of the Citizens & Southern National Bank of South Carolina, which also expresses complete approval.

And I think rather significantly, a letter from the president of the Small Towns Association, Mr. Henry, which expresses wholehearted support.

Senator HUMPHREY. These letters of support for the bill are very fine letters. I though this one—if I may just read a line:

> In my opinion, in the long-run this legislation will not cost the Federal Government, but will, in reality, effect a savings for them.

I thought that was very effective. This is from the Citizens & Southern Bank of South Carolina.

And these letters are from bankers who see that there is a chance for great cooperation between the private financial community and the government of the community.

Thank you.

(The letters referred to follow:)

THE CITIZENS AND SOUTHERN NATIONAL BANK OF SOUTH CAROLINA,
Columbia, S.C., September 21, 1971.

HON. JOHN C. WEST,
Governor, State of South Carolina,
Columbia, S.C.

DEAR GOVERNOR WEST: Thank you for the opportunity to review S2233.

This letter is to clearly indicate my total, unequivocal support of this Bill. Unless we have this or something quite similar, the migration to the large urban areas will continue and will intensify.

This law will enable communities to develop the facilities to attract industry. That will provide the jobs and the tax base to keep people there and to provide governmental services to them.

In my opinion, in the long run, this legislation will not cost the Federal Government but will, in reality, effect a savings for them.

I plan personally to do everything I can to work for its early enactment into law.

Sincerely,

HAROLD S. JARVIS, *Vice President.*

MUNICIPAL ASSOCIATION OF SOUTH CAROLINA,
Columbia, S.C., September 16, 1971.

Hon. JOHN C. WEST,
Governor of South Carolina,
State House, Columbia, S.C.

DEAR JOHN: The Municipal Association staff in Columbia has informed me of your interest and also the interset of the State Development Board in the Rural Development Bill (S. 2223), and I am most happy to endorse the said legislation. Although there are some certain benefits to the municipalities, this legislation will be of great benefit to rural sections of the country.

I am most hopeful that you will be successful in obtaining one of the regional banks for our great State of South Carolina when the legislation passes.

Wishing for you the best when you testify in Washington on September 23, I am

Sincerely,

GORDON HENRY,
President, Small Towns Association.

Governor WEST. I think those letters are a good concluding statement of the way I thank you gentlemen for your interest and concern demonstrated by the meeting of this subcommittee. I know that you will investigate very fully the impact of this legislation on your great Nation.

I assure you, gentlemen, as Governor of the State of South Carolina, that while South Carolina may not always be first, it is never in doubt.

(The attachments to Governor West's statement are as follows:)

CAPITAL INVESTMENT IN SOUTH CAROLINA BY THE MANUFACTURING INDUSTRY, 1960-69

Industry	Employment	Investment	Investment per employee (dollars)
Food and kindred products	4, 927	$49, 709	$10, 089
Textile	44, 054	918, 546	20, 850
Apparel	32, 069	99, 424	3, 100
Lumber and wood products	6, 580	73, 253	11, 133
Paper, printing and allied	4, 553	329, 337	72, 334
Chemical and allied	25, 055	1, 366, 664	54, 547
Stone, clay, and glass	4, 189	142, 929	34, 120
Metalworking	44, 308	793, 849	17, 917
Remaining [1]	3, 069	166, 663	54, 305
Total	168, 804	3, 940, 374	23, 343

[1] Includes tobacco, petroleum, rubber and plastics, leather, and miscellaneous industries.

Source: Research Division, South Carolina State Development Board.

PROJECTED EMPLOYMENT GROWTH BY INDUSTRY TYPE AND CAPITALIZATION REQUIREMENTS, 1970-75

Industry	Employment growth	Capital required (thousands)	Industry	Employment growth	Capital required (thousands)
Food and kindred products	600	$6,053	Stone, clay, and glass	4,000	136,480
Textile	200	4,170	Metalworking	11,100	198,879
Apparel	5,600	17,360	Remaining	4,600	249,803
Lumber and wood products	200	2,227			
Paper, printing, and allied	3,000	217,002	Total	35,400	1,164,711
Chemical and allied	6,100	332,737			

Source: Research Division, South Carolina State Development Board.

Senator HUMPHREY. Thank you very much, Governor West.

I want to note for the record just a couple of points of your testimony.

The purpose of S. 2223 is not just a program related to the poor and the needy who are already the victims of deprivation. But as you have put it out so well, it is to establish for once a preventive maintenance program to get at the problem of development, to provide community facilities that encourage the entrance of and the location of industry and to provide capital for those community facilities and to provide capital for these industries.

In other words, this is not a welfare program. We have over here on this chart, title I, which is the Farmers Home Administration operation expanded considerably. And this is for what we call socially motivated loans on the soft loan program, accompanied by the technical assistance program. And then over on the other side, under title II we get into the banking proposition, where you are really talking about industrial, economic, and community development, where you reach into the money markets all over America to sell your paper, so you are not dependent on congressional appropriations.

The Federal Government will make an initial investment of $200 million a year for a 10-year period. All of this is repayable. And our experience with these banks that we have helped establish like the Federal Land Bank, the Bank for Cooperatives, the PCA's, all have repaid the Government back their initial capitalization.

Governor WEST. RFC.

Senator HUMPHREY. The RFC was a classic example. It provided a long term financing that many of our communities can't get ahold of. So this is, as the Governor has well put it: preventive and it is developmental. It is not a substitute for OEO, and it is not a substitute for HEW or for welfare reform. These are other programs that relate to the needs of our people, but this is a developmental one.

And I also remarked about a couple of other things here: I heard Senator Hollings say something that I hadn't heard before. He said that he had heard of many people migrating from poor, poverty-ridden rural America into the poverty areas of the cities, but he hadn't heard of very many people leaving the poverty areas of the cities to come back to rural America.

Now, there are people that leave the cities to come back, but not the poor. And the reason is that there are so few jobs. The whole problem relates to jobs. We are thinking for the first time here in the Congress about the overall rural community—the rural producer, his prices, the community in which he lives, the total community.

Look at many of our local people in Minnesota. We have some small farms where you can't earn enough even if you could get a good price. But you can do it if you can get a job along with it where you have a supplemental income, or where another member of the family can work at the job. And there isn't any doubt as I said, when you get one of these industries, the town begins to take on new life. I have seen it all over.

We will have a job on our hands getting this bill through the Congress. I want you, Governor, to know how much we appreciate your support. I would urge upon you and others to proselyte. I think we could pass the bill at this session if we can just work at it. And I don't know of anything that could be more important.

I want to say this: When we talk about economic revitalization, you get more for your dollar in rural America than any other place.

We have statistical evidence showing what you talked about, Governor. I though your language was impressive about how the urban monster just eats up the revenues, and consumes sometimes, even the people. We can put a dollar in rural America and have it be equivalent to $3 in other parts of the country, in terms of actual production.

Would you like to add something to the testimony of the Governor, Mr. Manly? Do you have some commentary?

Mr. MANLY. Very briefly, Senator. I would like to reinforce the Governor's statement, perhaps in a more specific way. You see, for the past 10 years we have been very, very hard at work building the economic base of our State. I just moved into this job about a year ago after 20 years in industry. And I would view this bill that we are supporting here, from that standpoint, as more of an investment than any kind of expense to the taxpayers of America. I think the return on that investment would be beyond measure in a few short years, and in terms of what it can do for the people all across this Nation.

Just to give you some idea of why we have such a firm belief in getting such a vehicle of this nature, in the last 20 years we have doubled the per capita income in South Carolina. It has grown from approximately $1,300 to better than $3,000. With that fantastic growth we are still about 47th in per capita income. So we have got to really catch up.

But, I think the pertinent point is that we have been hard at work doing in our State, one of the poorest States, one of the smallest, what this piece of legislation could make happen in a very accelerated manner.

The very nature of our State defines that we are in business to develop rural American because we had an agrarian economy, for all practical purposes, until the end of World War II. This is when we first began to move on the industrial scene.

As recently as 10 years ago we were getting about $100 million annually in new or expanded industry. The year before that we passed $700 million. And it was down a little last year, around $300 million, and we are well beyond that at the midpoint of this year. So, while the rest of the Nation is suffering for the cooling down of the economy, we are enjoying one of the lowest unemployment rates. We are still putting people back to work.

But I think it all gets back to the basic thing that we are all concerned with here: human resource development. There are all sorts of mechanisms involved; there are all sort of vehicles needed, but when you get down to the final analysis if you can find that person and motivate that person to learn how to do something, it has been our experience, as the Governor says, with over 400,000 people out of two and a half million we have found very few that you can't motivate. The ones that so many are inclined to say are not worth a tinker's damn, they are sitting there in the rocking chair; they don't want to work. We have disproven all these old witch stories. We haven't found people who don't want opportunity. We have found that once people understand, once you teach them to wash and to clean up and learn, and start with the basics of reading, writing, and arithmetic, then with a little training they can go into the job slots and become wage earners, and they become proud people because they have found self-respect and self-esteem, and they are not concerned any longer about throwing bricks and rioting and this kind of thing.

We are late in starting but it is my view that we are fortunate from the standpoint that we have not made some of the horrible mistakes made in the metropolitan areas, so surely we can profit from that.

But I would be so presumptuous as to suggest, as evidenced in the technical education program—we had 35 wonderful State delegations, and I think your fine State was among them, to see how it works in South Carolina. We have consulted with the States of Arkansas, Missouri, Oklahoma, and even Alaska, trying to help them. I really believe that our State, because of our slow start, and the lack of necessity for a lot of undoing such as there is in the metropolitan areas, I think we could serve as a model in the implementation of this plan. If it is not presumptuous I would like it to go in the record that we would stand ready to do that on the basis that all of our experience would certainly be available to any other of our sister States as it relates to bringing people and economic opportunities together for the betterment of our whole country.

Senator HUMPHREY. You see, we are beginning to find out that there is a mixture required, as you have indicated; you have to have community facilities but you also have to have trained manpower for jobs that will be available and that are related to job opportunities that are either present or on the way. And I gather that you tie in your industrial development efforts very closely with your school system.

Mr. MANLY. Yes. We are the only State that by law has a charter to bring human resources and development through the technical educational program into the industrial economic development scene. We sit down with a prospective industry, as the Governor has stated, and we assure him that we will find the people, screen them, test them, and train them while the plant is being built. They go to work and they are highly productive.

We frequently call our technical education committee the committee for starting up in the black.

The Elgin Watch Co.—we had a letter from them and many other companies and when they were coming to South Carolina they told us that the new plant would be ready on a given Monday. The trainees became employees on a Monday morning at 8:00 o'clock. By their own statement, about 3:00 o'clock on Tuesday, the following day, they were making a profit; they were in the black.

I want to emphasize that they were paying the same rate of pay that they had been paying in Elgin, Ill.

I also want it to emphasize that South Carolina is not one of those Southern States that courts runaway plants. We still believe that what is good for Minnesota or Wisconsin or Ohio is good for South Carolina. We are looking for expansion, normal growth in the southeastern market. We don't want to create problems elsewhere. We want to cure our own and hopefully help others cure theirs.

Senator HUMPHREY. How I wish this story could be more fully projected.

You know, we are all the victims of a certain amount of what I call "media despair." I hear the bad news.

And this offers real hope. What you are saying here about your rate of employment, that is quite a statistic that you have given us here.

Senator Hollings.

Senator HOLLINGS. Let me add two things, and then I hope you and my Governor will excuse me. I am going to have to catch a plane.

Senator HUMPHREY. Yes, indeed.

Senator HOLLINGS. In competing, of course there should be two things emphasized, one related to the bill and one related to you and me as Senators. The one related to the bill has put to rest for all time that the poor, rude, dull country fellow can never learn anything, and it is wasting money. And Mr. Manly has emphasized in an eloquent way their willingness to work.

I will never forget in Elgin, Ill., they told me: "They will never really learn; we will never really get started up." But the point is: In Blaine, S.C., I don't know whether the majority of people in Blaine owned a wrist watch; that is how rural it was, and how undeveloped it was. But they learned it in good time when the finest of aptitudes and the finest of attitudes, so that at 8:00 o'clock they were there and by Tuesday the plant was in the black. So they can learn.

And in 2 years we were 15 percent over and above the productivity rate of Elgin, Ill., and they were telling me: "We had these watchmakers whose families who had been watchmakers for 200 years, since the beginning of the Nation and they were special artisans and everything else." And I said, "That is fine, but we can learn to do it, too." And we have proved it time and time again, with whatever industry you want to name.

But the main thing is—now we get back to phase II and phase III—is that the country did not have a trade policy. Now, as a result of having a trade policy, you can take this bill, and put all this money in to rural areas and this thing can work. Now, look around. Elgin, Ill., has now gone out of business; they are still making Elgin watches, but not in the United States of America. They had to go completely offshore.

Similarly, the tool industry is headed in that direction, the electronics industry, the radio industry, the automobile industry, and many others.

Senator HUMPHREY. You are talking to a man that understands that.

Senator HOLLINGS. You understand what I am talking about.

So that is the real crux of this thing. I hear some of our colleagues on the floor crying protectionism. It is just good common sense that you have got to be able to give that opportunity and then be able to protect it—not unduly, but when on the other hand it is being unduly carried overseas, because we just couldn't compete with the wage rates and the conditions and the other cartel systems, and the banking practices, you might as well just not start your rural program.

So, I want to urge you and everybody, on this 10-percent trade policy, let's get a trade policy out of the Congress so that we won't export the opportunities we are talking about.

Senator **Humphrey**. The interesting thing is that after they move these plants and the goods come back, they don't seem to be any cheaper to the consumer. We import Italian shoes, and we make shoes in Stillwater and Red Wing, Minn., and you don't save one dime by buying them from Italy, as far as the consumer is concerned. I don't know who is getting the profit in between.

And the same thing is true of that watch.

Senator **Hollings**. Exactly. For 5 years that whole thing was worked out, everything was successful, and we were even outproducing Elgin, Ill., but after 5 years they were gone; they couldn't compete anywhere in the United States.

Senator **Humphrey**. Look at the electronics industry. Take your TV. I think that there are only one or two made in the United States.

Senator **Hollings**. Radio appliances, toasters, all are going overseas.

Mr. **Manly**. This is a very basic point. Another thing that we have found in the technique of training people is that we have instilled in them a sense of pride and self-respect, we very carefully and purposely infused into them an understanding of the competitive enterprise system and the need for making a profit, and explained to them how this connects up with good workmanship and efficiency in the factory on the line and on the job.

Now, if there is a salvation for the future of this country from the standpoint of economics—and I honestly believe from the standpoint of basic freedom—the American working people must face up to the need for increased productivity if they expect increased rewards. And I don't care where you are: Northeast, Southwest; there is no escape from that. If the entrepreneur cannot get those efficiencies that are requisite in the form of manufacturing and marketing, he is not going to be able to compete; it doesn't matter whether you are talking about domestically or internationally.

I think that we have in our State shown that we have found a way. We rank fifth in foreign investment, and we have more West German capital invested in South Carolina than any place in the world outside of West Germany. One of the reasons for this is:

> We can take former cotton pickers and soy bean pickers, as we did recently in one plant, and start out and teach the metric system first, because the German blueprints are in metrics. And then we start them in the basic training to learn how to cut and shape metal and turn out a $4. ,000 machine that can be sold all over the world and will be sold, through the Port of Charleston, internationally. This is the answer, really. We have got to have a good trade policy.

But the American workers have got to be equipped to produce competitively.

Senator **Humphrey**. I am going to ask the staff to send a copy of Governor West's testimony to every member of this committee, not just the subcommittee, No. 1.

And No. 2, Mr. Manly, I want your testimony excerpted in terms of what you have done with these trade schools, and the experience which you have given to us, and have that mimeographed. I want every member of this committee to get a copy of it. You came here to testify and this is so good that I think it will be very impressive to our committee.

Mr. MANLY. Thank you very much.

Senator HUMPHREY. Now, we have my friend Lewis J. Johnson—and I am delighted to have this wonderful citizen—president of the Arkansas Farmers Union, and chairman of the board of Rural-Urban Development Association, to testify. And he has been a most patient gentleman.

But I am pleased that you waited because you have heard some of the testimony, and I thought you might want to make some statement.

STATEMENT OF LEWIS J. JOHNSON, PRESIDENT, ARKANSAS FARMERS UNION, LITTLE ROCK, ARK., AND CHAIRMAN OF THE BOARD, RURAL-URBAN DEVELOPMENT ASSOCIATION

Mr. JOHNSON. Thank you, Mr. Chairman.

I would love to give a copy of my statement for the record and I will just briefly cover a few things.

First, let me do away with a few niceties that I want to say. I am so delighted that you, Mr. Humphrey, are back in government. A lot of us, of course, wanted you over in a different place in government, but we are still delighted to have you here, since we didn't get you there.

Senator HUMPHREY. Thank you very much.

Mr. JOHNSON. I have stated before that having you back in the Senate, as far as the farmers are concerned is just like having money in the bank.

Senator HUMPHREY. We hope we can get a little money in the bank for those farmers.

Mr. JOHNSON. I do want to let you know how much we appreciate your being back.

And thank you for the opportunity to say a few words about this Senate bill 2223. Just let me say first: We are for it.

Second, I want to compliment you on retaining Mr. Baker as your consultant. In my own opinion he is one of the best rural economists in the country.

Senator HUMPHREY. We don't have too many of them, do we?

Mr. JOHNSON. Not rural economists; we sure don't.

Senator HUMPHREY. That is right. We have been talking about that.

Mr. JOHNSON. And I find that it is—well, I don't want to brag on Arkansas: I don't have that much time, but South Carolina doesn't have all the goodies. Some 15 or 16 years ago we built some trade schools and we set up a water pollution commission, the Arkansas Industrial Commission.

Now, really, we poor-mouth a lot, but we are not that poor any more. We just got through, thanks to Congress and our long-time friend here, developing one of the biggest waterways and the largest waterways in the world in the Arkansas River. And of course we let Oklahoma share in that development a little because they are good neighbors. So you see we have been moving.

And our industries that have come in have come in clean. We rank No. 5, I believe, in good, clean, cool water in the Nation. We rank No. 5, I think, in tourists and hunting and fishing licenses in the Nation.

So, we have got a lot of things to be proud of.

But, nevertheless, there are a few things we still need.

Senator HUMPHREY. Speaking of your tourism, there is going to be a good deal more recreation now that you have the Arkansas River development, isn't there?

Mr. JOHNSON. Certainly. In 1970 we had 17.6 million people traveling in Arkansas from out of State. The State collected $105 million in taxes, and the local people collected $12 million in taxes. The tourists traveled 2.5 billion miles in 1970. And services related to businesses for tourists and recreation employ over 47,000 people, which 11,300 firms are participating, like service stations, motels, places like that.

We are showing a 10-percent gain each year in tourists. Now, I wanted to bring that out because after all this particular bill you have here, we don't want to leave out the recreation facilities and those things.

Senator HUMPHREY. We have included that as part of our listing.

Mr. JOHNSON. That is one of the great things in Arkansas.

Now, we in Arkansas have over a billion dollar income from farm income. We have over a billion dollars from industry. We have a billion dollar economy now, diversified economy. We are not proud with our achievement. We are pleased that we have gone as far as we have. We have made a lot of strides. We have made a lot of them since the days, Senator, when we used to have an old coon dog when I was a boy and we coon hunted in the winter to help supplement our income from cotton, because cotton was worth 5 cents a pound in those days, and coon hides were worth about $5, so a bale of cotton would get you $25, and if we could catch five coons on a winter night they would be worth $25. So a coon dog was a great source of income back on the farm in Arkansas when I was a boy.

But the fur isn't worth that much any more, and we have had to turn to other programs. And I have been working with rural people for 38 years. What little I know I got most of it from Mr. Baker.

Senator HUMPHREY. We think the world of him.

Mr. JOHNSON. But I do want to say this: We do need better prices for our farm families. We need a different concept of parity, and it ought to be based on the cost of production. Labor has it on the cost of consumer prices. All of industry has it on their cost of production and their prices are based on it. The farmers' price is based on something that has got nothing to do with production and it isn't right and it never has been right.

Now, I don't want to bring the Civil War up, but you know, since the Civil War the South has never been treated right.

Senator HUMPHREY. And by the way, they didn't do too good with the Middle West, either.

Mr. JOHNSON. We have always got the bad end.

After all, there are a lot of good things in this country. Things are so much better than they used to be. We have got a lot of things to be proud of. We have got a great country, a great people. But actually there are a few things that we need to do.

The Farmers Home Administration has done a tremendous job. I listened this morning as our big financiers talked about the Farmers Home Administration. I have never heard where these people had any kind of rural development program, have you? I hope you don't let them mess with your bill too much.

Senator HUMPHREY. I don't think you need to worry.

Mr. JOHNSON. I just wanted to tell you that. These people come along and get the gravy after the work has been done. We put it in shape to where it can produce and where they can sell bonds and then the good bonds they don't let the little people have them; they let some of their preferential friends have them.

Now, I want to bring this up. I hope you fix it in this bill to where the bond that you sell will be tax deductible like municipal bonds. That is very important. That has been a tremendous help, as you know, to our municipalities.

Well, let me hurry along to say this is a good bill. It won't solve all the problems, but it will be a big step forward. And what you need to change about it later on, after some experience we can change it.

Now, I hope you put in this bill about our trade schools. Now, Mr. Manly—and I like South Carolina—but we had our program long before Mr. Rockefeller invited Mr. Manley to Arkansas. We had 10 trade schools already built before he got there and three more on the drawing board. I served on that committee all the way through. I served on the pollution committee, which is 16 years old. I served 14 years on that.

So, we had our trade schools, our industrial commission, our pollution commission—and we have one of the finest in the Nation—set up long before Mr. Rockefeller brought in Mr. Manly. Now, we are proud of what they are doing in South Carolina, but Mr. Manly didn't bring it to Arkansas. We were going along before he got there.

Now, if you are going to give away some money for pilot programs you remember this in Arkansas. We have got more good people in the jobs on Federal programs in Arkansas than anywhere else in the country, whether it was REA's first establishment, or soil conservation's first establishment; we have been first.

So, if you want a pilot project, don't forget Arkansas. You come on down there with it and we will do you a bang-up job.

Now, Mr. Chairman——

Senator HUMPHREY. I have the message.

Mr. JOHNSON. I know you, Mr. Chairman, and I not only respect and admire you, but I think you are one of the great Americans of our time.

Let me go ahead, then, to say this:

> In your trade schools let's have this bill so that the people can participate in these grants and these loans. Now, don't you let nobody talk you out of putting in plenty of grant money. Those boys said this morning: it is not feasible for a little city of 50 to have a sewage system and water system; that is why the boys and girls left there, because they got tired of that outside toilet. Why can't we build the facilities there large enough for 500, and make room for them to come back and have a decent home and a modern home, and bring in industry and it will come back?

Mr. Chairman, we can drive 50 miles now to work. We don't have to have industry in every little community. You put it within 50 miles of us and we will get there.

I know, by the way, that you will like this. Down within a half a mile of where I was born the boys built a park and named it "Red Jackson Park," and dedicated it to me the other day and I was very pleased. And we have the railroad that furnished the 20 acres right beside it. It is the only steam engine locomotive left in the country and they haul oil from Waterloo, 28 miles down to the Missouri-Pacific tracks.

Now, they put on a passenger coach, and they run a tourist excursion and they built this beautiful park and named it in my honor. Now, the railroad people got so carried away with it that they have set-aside 200 acres of land adjoining it, and they are going to build a motel, a swimming pool and a golf course, tourists attractions.

Now, that was brought about by a bunch of "Green Thumbers" doing the work of building this park. Now, don't leave these people out of this program. They have got to have a place. You don't have to have industry in every area to redevelop rural Arkansas but let's have some jobs out there, and let's build recreation areas for the people to come in.

And our older people have got to have a share in it. I just wanted to mention that to you; be sure and see that they don't get left out.

Senator HUMPHREY. I think that the language that is in the bill presently, would include recreational development.

Isn't that right, John?

Mr. BAKER. Right.

Senator HUMPHREY. We listed that as one of the improvements that we felt ought to be emphasized.

And you are so right; this offers not only a better quality of life, but it is becoming an income-producing property, as we know.

Mr. JOHNSON. Well, Mr. Chairman, I tell you, I don't care how much you talk, you have got to have money in these rural areas. In some of them it won't be industry, but it will be work jobs.

In Arkansas we are fortunate. We have the Ouachita Mountain Range, Boston Mountain Range, and part of the Ozark Mountain Range. If you need one thing it is more and better recreation facilities for the general public and it is sort of foolish, since we own that land, that we don't develop it. It is a great investment in the future of this country.

Now, I am sure that there will be a lot of things that will come up later on that you may need to change some. I found one of the best statements that I had read on rural development was put out by W. C. Motes, who is Director of the Economic Development Division, U.S. Department of Agriculture. Now, he sets out in no uncertain terms the cold-blooded facts of life, and this strategy that you are going to have to use in this development, and it deals with everything; with all of your facilities, with the people and everything that you are confronted with.

Mr. Chairman, I would like to put that in the record.

Senator HUMPHREY. We surely want it in the record.

Mr. JOHNSON. It surely is a great statement.

Senator HUMPHREY. I want to put it in the record and I want to be sure that I have a special copy of this on my desk. Will you see that we get a xerox of it? We will indeed put that in the record.

(The document referred to follows:)

RURAL DEVELOPMENT: ECONOMIC CRITERIA FOR ASSESSMENT OF OUTCOME, AND FOR RESEARCH INPUTS

(W. C. Motes*)

> It has never been the purpose of the American people simply to get by. We have purposed great things and we have achieved many. But great efforts can and do lead to great disasters. He who would make no little plans must expect to make no small mistakes.
>
> —D. P. Moynihan, Report of the National Goals Research Staff. July 1970.

It is fashionable and perhaps even prudent when addressing learned societies (or at least groups of economists) to deplore the assigned topic. As I understand the procedure, one first finds fundamental fault with the assignment and then argues that he has no choice but to proceed in a somewhat different direction. This is not my intention. I am pleased with the approach implied by the assigned topic. The topic is, of course, too large to cover here. But I believe it is one that is highly appropriate for social scientists to consider (and I include economists in that group).

I want to talk first about rural development, what it is and isn't; about a generalized concept of criteria and goals; about the assessment and evaluation of rural development; and about my biases toward priority research.

RURAL DEVELOPMENT—THE CONCEPT

It is also fashionable to say that rural development cannot be specifically or adequately defined. To some extent, this is true because it means different things to different people, and to the same people, sometimes, in different circumstances. Still, we can say quite a few things about it.

1. Rural development is the process of improving the use of available resources—human, economic, and natural resources to fulfill human wants and needs. This includes resources not now present in local areas, especially capital and labor. Reduction of current and future human problems is the reason and justification. Income transfers technical assistance, planning and research are the tools.

2. Rural development includes economic development but it is much more. A basic element of rural development is the creation of jobs in rural areas. Thus, economic development is important as it creates jobs and raises income, thereby permitting people a higher standard of living and wider options for themselves and their children. But, it is perfectly conceivable that economic development may reduce the number of jobs in some local areas, though still leading to higher incomes and/or better services for people who once lived in these areas.

3. Rural development means those processes whereby communities adjust to their opportunities or to their lack of opportunities. Communities are said to be developing if they adjust in a manner that permits their citizens to improve their incomes and conditions of life even given very restrictive constraints.

This means facing the fact that some residents of some local communities must seek opportunities elsewhere. A major concern is that those who leave be equipped to succeed, and that the transition minimize the hardship for the people involved.

Perhaps just as important although often forgotten is the concern that those who remain in communities that are adjusting to a static or perhaps even declining economic base must be able to afford the basic amenities of life for themselves and for their children. This concept is not always included in definitions of rural development, but it is basic to a realistic perspective of the development process.

4. The rural development process is costly in effort and in dollars. It always faces important constr[illegible]n terms of limited resources and non-complementary goals as it is undertak[illegible]ecific areas.

Rural development [illegible] delineation of an area and identification of the economic, social and cu[illegible] characteristics and goals of the population and the organization of all reso[illegible]f the area.

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*W. C. Motes is Director of the Economic Development Division, ERS, U.S. Department of Agriculture. This paper is prepared for delivery before the Rural Sociological Society, Denver, Colorado, August 27, 1971. The views are those of the author and should not be construed as representing Departmental policy.

5. Why Rural Development and not just "development?" Rural development is a topic of special concern because of special rural problems, just as urban development is also a special topic. The justification of breaking the topic into rural and urban parts depends on the independence of the problems—an uncertain justification because the problems are national, closely linked problems. The problems and the approaches are treated separately because they are somewhat different from urban problems and separated they appear to be more manageable.

Development processes are ubiquitous and persistent and their impacts are undirected reactions in terms of local resource use to national and local economic and social trends. Rural development as an ideal, a policy, or a program necessarily includes the invocation of strategies designed to take advantage of the ongoing processes including economic and social intervention to focus and change processes in a manner advantageous relative to development goals. This generic definition of rural development provides the perspective for the specification of rural development strategies.

GOALS FOR DEVELOPMENT

In operation, any rural development strategy implies certain development goals, but I do not know specifically how they are determined—nor do I need to. In fact, discussions of goals make me uncomfortable because they involve *normative* absolutes that (a) are not stable over time, (b) mean different things to different people, and (c) are frequently conflicting: Discussions of goals lead to traps called "optima;" "maxima."

Goals describe where we want to be; processes and strategies concern how we are to get there; and criteria concern measures of effectiveness of strategies.

It is the proper function of politicians, policymakers, and other value oriented philosophers to describe goals. Goal definition presumes broad areas of agreement (a productive and rewarding job for each worker; quality education for all; adequate housing for all families, etc.). This is an overstatement, but more true than false.

But, there are wide areas of disagreement on the strategies of achieving the goals. First of all, there are many and obviously none is best in all respects. Second, goals frequently overlay each other and the choice of a strategy without the friction this implies is difficult. For example, efficiency is a goal, and so is human equity. The choice of a strategy that retains incentives for efficiency and distributes the returns from production on an equitable basis is always a difficult one.

To facilitate choices among strategies, we depend on sets of criteria that tell us something about whether or not we are moving in the direction implied in the statements of goals. We need criteria to tell us (without judging whether or not one goal is better), whether or not two goals are consistent or exclusive or have an interaction somewhere in between.

I do not mean to imply any special us of the term "criteria," and I do not mean to focus these measures on the goals. Goals may be taken as given (at least in short run circumstances) and the goals suggest their own criteria as measures of effectiveness of strategies.

This allows us to get to the tough problems: the disagreements about tradeoffs. Changes in one direction frequently must be traded off for changes in another because there are never enough resources to effect all of the changes that everyone would like to see—and some are contradictory.

Thus, a strategy of development is more effective as it brings together *more* rather than fewer of the preferred kinds of changes. Assuming something about priorities, conclusions can be made that one process; one approach, one program; one strategy is better than another. These crude tools are the best economists have. They provide partially objective measures that (at least) allow the same analyst to make the same conclusions in the same circumstances twice in a row—a rule of thumb I judge to be some measure of objectivity if not an entirely satisfactory one.

There is little new and nothing mysterious in the use of criteria in this way. The list of criteria can be almost infinite. Many are closely related parts of community characteristics. As examples, I list the following:

More and better industry.
Better services.
Better rural-urban balance.
Reduce outmigration.
Resource conservation and protection.
Reduce poverty.
Find jobs for redundant labor.
Raise income level and rate of increase.
Improve income distribution and stability.
Raise level and stability of employment.
Increase population level and rate of growth.
Increase (decrease?) population density.
Increase variety of choice available to people.
Increase privacy.
Individual equality.
Improve sense of community, democratic participation.

There is one fundamental criterion for evaluation of any development activity: How well does it work, if at all? For example, there is considerable disagreement on whether or not the agricultural commodity programs, forest management programs, soil conservation programs, and many other programs have either direct or significant effects on rural development. To some extent, many of these programs are part of the present rural development strategy. Their relative effectiveness remains a matter of considerable conjecture largely because careful and critical screening of their impacts according to whatever agreed on criteria are necessary to evaluate rural development programs has not been necessary to justify the budgets and costs of these programs.

RURAL DEVELOPMENT STRATEGIES

Any rural development program involves intervention into the economic and social processes of rural communities. Strategies of intervention that are available fall roughly into one or more of five categories—singly or in combination: (1) An implied or explicit *laissez faire* strategy of letting national trends and local developments work themselves out; (2) a dispersal strategy of attempting to inspire development evenly across sparsely settled areas; (3) a growth node approach of picking "natural" centers of activity and trying to speed up their growth through economic intervention; (4) a new communities approach; and (5) the community adjustment approach that concentrates on community problems and outlines those activities that will ameliorate these problems.

Strategies 2, 3, and 4 are justified largely on the need for growth—and the need for more jobs for agricultural and rural people. The fifth assumes that job creation is only part of the problem, or that it is not a reasonable possibility for some communities but that all communities need and want adequate levels of services. It assumes that it is in the national interest that rural people be educated, healthy, well-housed and have basic amenities of water and sewer facilities and that government should help ensure the availability of these services. The first, like the fifth, concentrates on problems but it may include a strategy of avoiding long-term commitments to a development goal.

In fact, the options are somewhat narrower. Because most development objectives involve some form of industrial activity that depends to some degree on external economies of agglomeration, concentration, or scale the plant in the cornfield will probably continue to be an isolated phenomenon widely discussed and highly visible but hard to replicate.

Similarly, the new town will be a kind of a fresh-start ideal; an architectural showpiece and perhaps a social showpiece. But, these towns compete with existing communities; they are hard to finance and organize and I expect them to have mixed success on their own and provide little more than curiosity value for development. We could build new and better towns if we wished to do so. But it is correctly perceived that new towns as a rural development strategy would have only a small likelihood of effectiveness.

The two strategies with the largest chance of effecting viable development in rural communities include numbers (3) and (5)—intervention in the process of development and *growth of local centers* of economic activity and intervention in the process of *adjustment of communities to stable or declining population and stable tax bases*. These strategies appear to guide most active development efforts today.

These strategies are generalizations, of course. In addition, they are designed for entirely different sets of local circumstances. This implies the need for a set of criteria to measure the likelihood of success of each—and to point out where one type of strategy would be more appropriate than another. This involves determining the specific characteristics of a community or an area and interpreting these as the area's relative advantage for growth.

DIGRESSION ON GROWTH

I would like to digress a moment on growth. Americans always from our earliest days, have been preoccupied with growth—of population, production, and excellence in culture and arts.

Today we find that growth is a matter of controversy. It is controversial because, as Boulding says, we are realizing that whenever we find ourselves with more goods, we inevitably find ourselves with more "bads"—and we can no longer reasonably hope the "bads" will go away on their own.

The problem is beyond technology, according to the National Goals Research Staff, because in a technological struggle (overcoming gravity, for example) those apart from the struggle are indifferent to it. Almost no one is rooting for gravity to win this struggle.

But social questions always involve varied and conflicting interests and those whose interests are lessened must have reason to remain a part of society.

I suggest that it is in the Nation's interests to understand growth as the complex of changes that it is. The need is to direct and guide growth: to understand its characteristics and interactions and to strike the necessary balances between losers and gainers that will allow growth in those areas where we want it, but focus it so that quality is a fundamental criterion. We must preserve the quality of our communities without destroying the interests of those who can contribute to that quality.

One aspect of this is recognition that growth and development are not the same—that growth, for some communities under some circumstances is a highly acceptable strategy. For others, it may be a delusion.

Most of all, we need to be able to tell the difference. I am posing a rough framework for such a process.

THOUGHTS ON DEVELOPMENT STRATEGIES

Such measures can be made many ways, using many scales. One way to do this is to find proxies for a set of characteristics important to development and fit communities into development categories on this basis. Lyn Daft[1] modified an earlier Perloff[2] array to show how capital investment, market accessibility, and labor force could be deduced from a series of proxies and community types designated on that basis.

The proxies are:

Value added—capital investment and comparative advantage.
Population—labor force and local market.
Metro proximity—interaction with major markets.

The categories are:

	Near Metro		Far from Metro	
	Large population	Small population	Large population	Small population
High value added	I	II	III	IV
Low value added	V	VI	VII	VIII

Which regions are candidates for growth policy? Clearly, Type I regions with capital, labor, and markets. Just as clearly, Type VIII regions have the least going for them because they are short on capital, labor and markets. And, the "Growth" intervention strategies in Types I and III would include:

Comprehensive planning.
Community infrastructure expansion.
Industrial incentives and credit.
Transportation facilities and assistance.
Labor market information.
Labor adjustment information and training.
Business services.
Industrial sites.
Home loan capital.

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[1] Lynn M. Daft. Unpublished manuscript. May 1969, Staff Economist Group, Office of the Secretary, USDA.

[2] Harvey S. Perloff and Vera W. Dodds. How a Region Grows. (New York: Committee for Economic Development, 1963), pp. 29–36.

For Types VI and VII regions, strategies would include:

Increase in the effectiveness of public service delivery of great distances.

Labor mobility assistance.

Planning cooperatively among several counties.

Outside investment in social overhead capital.

Technical assistance in decisionmaking involving multicounty areas.

Other types of areas fall in between. They have a range of comparative advantages and disadvantages and development strategies should be based on these. For example, Type VII regions have labor but lack capital and markets. Perhaps their best strategy is labor force training and relocation. Type IV regions have capital but lack labor and markets. Perhaps investment in transportation facilities can make this type region more competitive.

To recap this discussion, I am proposing three relatively elementary ideas, none new and none revolutionary—

Different regions have different potential for development.

Development strategies should be designed with the potential of individual regions prominently in mind.

Development goals include a considerable range of outcomes, but not all outcomes necessarily include economic and population growth.

IMPLICATIONS FOR RESEARCH

If there is a conclusion to be made from this discussion, it is that rural development, as I define it, would be more advanced today had strategies and programs been more specifically designed according to the needs of the target areas. I argue that this abstract case can be backed up by specific program results in Appalachia and other places where this approach has been more closely followed.

I would further argue that a major reason why this procedure for defining strategies has not been used more widely is that adequate information has not been available to guide it.

For one thing, we have been preoccupied with growth. I believe we have spent too much time trying to figure out how to make growth occur in some areas where the cost of stimulating viable growth is greater than the benefit. Too seldom has much thought been given to quality of growth and too often the focus has been on quantity and rate. Although there are signs emerging here and there that greater thought is being given to quality and less to quantity, only a few communities today are willing to question whether or not they need growth to have potential development.

Generally, we have concluded that there must be something wrong with our programs because they do not work equally well everywhere.

I'm suggesting that researchers have an obligation to policymakers to define development criteria specifically so that program can be defined specifically.

Programs designed to help communities adjust are counted mostly in terms of highways; water and sewer systems; hospitals and schools and occasionally dams and parks. Accomplishments from these programs are difficult to hold in perspective. Human benefits have been real, but progress in the broadest sense seems small relative to need.

Growth strategy areas have fared better, but this may be mostly by accident. The movement to a better community is too often haphazard. There are more jobs, more income, more planning, better services and this is progress and certainly should not be denigrated. But, no one effort has "put it all together."

What can researchers do? Perhaps we, more than anyone else, have the job of putting things together in concept, if not in practice. For starters, we have the responsibility of learning how to put research teams together to tackle some of the really tough complex problems. Our multi-disciplinary cooperative projects are practically non-existent. And, multi-disciplinary research across State and regional lines is an even rarer bird.

I want to end by pointing out 4 types of projects that should have very high research priority, in my opinion. They involve multi-disciplinary research teams, information needed very soon, and real and important problems to be tackled:

1. Assistance required to ameliorate the impact of mechanization of harvesting and curing flue-cured tobacco.

2. Develop and evaluate alternative adjustment strategies for communities with stable tax bases and increasing needs for community services.

3. Determine and evaluate changes in the characteristics of rural life, the impacts of these changes on the values of rural people, and the extent these attributes can be made available to non-rural people.

4. Evaluate the relative effectiveness of alternative economic intervention policies in increasing industrial development and income in rural communities of various types and locations.

I am arguing in this paper that rural development goals come from interpretations of human values, and that processes and strategies involve the use of all the well accepted criteria to turn up good decisions and forge proper and effective policies and programs. It sounds straightforward and even easy. Where's the catch?

There are two: (1) Human goals are very complex, unstable, and hard to convert into policies and programs. As a result, the trade-offs—the hard decisions—probably will be unsatisfactory to some most of the time and to most some of the time, keeping the policies and programs controversial all of the time and reducing the commitment to programs and research—probably holding them below the "critical mass" level and perhaps holding them out of sight.

Second, the problems themselves technically are vastly more complicated than is generally understood. For example, the interrelationships among objectives such as education and industrial incentives and incomes of poor people in the first—or 10th year—of a program are extremely difficult to determine, let alone anticipate. As a result choices must be made with very little good information.

But I do not conclude that the task is too difficult. Instead I think an increasing number of people are more clearly interpreting the challenge and setting to work on it.

Mr. JOHNSON. Please right now, Mr. Chairman, let me just give you some actual facts. We are moving out now to the small areas and the Farmers Home Administration does have the authority to make water loans and grants and sewage loans and grants.

Now, here is one thing, and I want to call your attention to it, because it is really important. I believe now that the authorization for the Farm Home Administration is $100 million, but they got $40 million. The authorization by Congress said that you can go up to 50 percent on grants. What do they do? They get $1 out of $10 instead of 50 percent; it is one out of 10 that they can use. Now, it seems to me like, if you get this program going here, and then the Budget Bureau over there can say it ain't worth a darn and we are not going to give you any money for it, you are wasting your time.

Senator HUMPHREY. That is one thing we can't do to title II. Title II will operate despite the Office of Budget Management.

Mr. JOHNSON. That is fine: I just wanted to tell you what the problem was out there, because these small communities are coming in, and rightly so, to get these loans and these grants, because you can't build rural America without having the facilities out there. And our youngsters demand it now, and rightly so. They have got just as much right to have a bath out in the country as they have in town, and they have always had that right. They didn't have the opportunity.

I have got an old 10-gallon tub we used to bathe in. My mother would draw the water in the summertime and we would take a bath that night. But that day is gone. Our people deserve more and expect more, Mr. Chairman, and they are going to have more. It is just that simple.

Let me say this: To go out now and to make a loan in the rural areas to these small towns—yes; the Farm Home Administration can go up to 50 percent. How are they going to go up to a 50-percent grant when they only have the total sum of 10 percent?

Now, I notice a statement here from my friend from over in ecology. We go, it seems like, from one thing to something else. But the man from the ecology department over here came out—it used to be the pollution, but it is ecology now. And I want to read a statement out of his statement, and I want you to listen to it.

He said:

> Major differences between the FHA grant program and the EPA program are the level of funding and eligibility grant recipients. The FHA basic grant is authorized at 50 percent, whereas the EPA grant is limited to 30 percent, and can go up to 55 percent only if the state pays 25 percent of the cost of the project, and certain water quality requirements are met. FHA grants may be made to associations and corporations not operated for profit,

and so on.

But here is what I wanted to tell you. He says here:

> To discourage shopping by prospective grant recipients FHA has informally agreed to limit its grant to EPA maximum.

They have gone and browbeaten Farmers Home Administration and said, "Now, you cut your grant back to 30 percent." Now, isn't that something? We are talking about developing rural America.

I know, I served 14 years on that Pollution Control Board and I contacted them the other day. Now, one of the big problems they have is making loans. The Pollution Control Board has a wonderful staff, but the "red tape" they are required to go through in making grants to rural communities makes them less effective in their work. All tributaries lead to the big rivers and the U.S. engineers must approve all pollution control grants. EPA must approve all of them. And there are so many pots on the fire it is almost impossible to get a grant through any more.

Now, I wanted to bring out that point because it is real. I would hope that the Farmers Home Administration can be given the grant money. They would go out in the small communities and give them 50 percent of the grant and loan them the other 50 percent and put them in business. It is just as simple as that. That is all they need.

Well, I don't know, Mr. Chairman. I feel deeply about this rural business. I have been working with these people a lifetime. They are my folks.

Now, you grew up in town. I grew up in the country.

Senator HUMPHREY. I didn't grow up in a very big town; it was 600.

Mr. JOHNSON. But I will say this: I don't think any other man has had a greater feeling for the rural people than you, Franklin Roosevelt, and Harry Truman.

But there are some things that you are going to have to pin down and fix where the Budget Bureau can't cut it out.

Now, this is a good bill. And there is nothing wrong with it.

Senator HUMPHREY. We ought to get into that FHA business on the grants. I know that is slightly beyond your jurisdiction, but I think it falls within the purview of this committee. After all, these sewage and water programs are vital to community development. And I think we ought to find out from FHA, bring them in here and find out what is going on. I think they are short of money.

Mr. JOHNSON. They are short of grant money. It is not their fault—they are short of grant money. So you can't put that blame on them. These boys this morning, these big bankers, they make my heart bleed. You know, here is the difference between the program now and what it was years ago when he was working under Mr. Baker on the big projects in South Carolina and he was regional director with the Farmers Home Administration. Every time we turned around they called us Communists. Do you remember those days?

Senator **Humphrey**. Are you kidding? I should say I do.

Mr. **Johnson**. I haven't heard anybody call you a Communist lately. They have berated the farmer and talked about him over the years. I remember the Committee on Economic Development came out in the late 1950's with a great big thing and they recommended doing away with all the farm programs, and doing away with this and that and, of course, Congress was wise enough to put it in the wastepaper basket; that is what we asked them to do with it and we had no pride in it. But now we find the great businessmen, the mayors, the Governors and everybody, with their hats in their hands begging now. It used to be just the farmers in there begging and now they are all in begging.

We feel like the Government has a responsibility to help private industry, help the big cities, and to help the States. We are not against it, but goodness, they ought to help the rural farmer.

Now, we told them -and you know it—20 years ago, you weren't solving your problem; you were just moving it to the towns. And it fell in on them and that is what happened.

Now, in Arkansas and South Carolina—I will speak up for them—we have got a migration back to Arkansas. And that old song that you hear now: "I Want to Go Home." We want to have something to go with it and say to them: "Come on home"; we are ready for you and we can do it under this redevelopment bill, because we will have the facilities out there to welcome them home and to give them a job so that they will have a decent life in a decent society in one of the finest places in the world to live, the rural areas.

Mr. Chairman, I have taken up too much of your time.

Senator **Humphrey**. No, you haven't.

Mr. **Johnson**. I would have come if you hadn't let me say a word, because I wanted to come and visit with you and to listen to this fine testimony and you are on the right track. We pledge to you all of our resources that we have at our command to help you in any way we can.

(The prepared statement of Mr. Johnson follows:)

Mr. **Johnson**. Mr. Chairman and members of the Rural Development Subcommittee:

I have lived a long time, hoping for a day such as today when the Nation's most powerful lawmakers would turn their full attention to ways and means to really revitalize and recapitalize rural America on a significant scale, not for the sake of rural growth itself but primarily to improve the lives and environment of all the people in both rural and city areas, and to give them a freedom of choice of where to live and work.

I am president of the Arkansas Farmers Union, member of the board of the National Farmers Union, and member of the board of the National Green Thumb, Inc., and other mainstream projects in Arkansas and other Southern States, and administrator of several health and manpower development programs for the aging and migrant workers which we carry out under contract with the Federal Government. I am also chairman of the board of the Rural-Urban Community

Development Services, Inc., a nonprofit association chartered under the laws of the State of Arkansas.

Mr. Chairman, I was born and raised in rural Arkansas. I obtained my high school and college diplomas from educational institutions in rural Arkansas. My work since graduation has been with and for the people of rural Arkansas.

From my experience and observation, I am convinced one thing is clear—rural America cannot prosper if we do not take action to improve prices and income received by America's family farmers. The Committee on Agriculture and Forestry labored mightily to enact a better farm bill than is now the law. We appreciate your efforts.

Since we did not get the better farm bill we wanted, we still must look for other ways to improve family farm income even before the present Agricultural Act of 1970 runs its course. I realize this is not the subject of your hearing today; but I know that you agree with me that an essential basic part of building a stronger rural America is to raise family farm income above its present depression level.

But, Mr. Chairman, I want to say firmly that better farm family income and a good farm credit system, which the committee has also acted to improve this year, will alone not be enough to raise the quality of farm life to where it ought to be. Nor is improved farm income and credit programs all that we need to revitalize rural America. The quality of life of farm families is dependent not only upon the adequacy of farm income but in almost every case upon the quality of general services and institutions in the rural communities where farm families live. Moreover, many farm families are increasingly dependent upon wages from nonfarm jobs to augment their farm income so as to provide an adequate standard of living.

No longer are rural communities made up largely of farm families. Each farm family in America has from five to 10 nonfarm rural neighbors. Farmers and nonfarmers share the benefits and share the costs and share the deprivation from the absence of community services and facilities they all use and pay for together. Support of community services and facilities continues to depend largely upon local taxes and the strength of the local tax base, still unfortunately, largely property tax and sales tax.

But the situation would be the same even if all local revenues came from income tax. The ability of a rural community to construct, maintain, and operate adequate facilities and services, for farmers and other residents, depends upon those nonfarm residents as well as farmers having an adequate opportunity to earn higher incomes than are now available in most rural areas. The farm family is uniquely dependent upon the nonfarm family and vice versa in modern rural communities.

With many farm families choosing for whatever reason to say on the land in the face of falling farm prices and income, many of them have been forced to find and work in nonfarm jobs to augment their farm incomes. This, many have been able to do, but not enough of them.

The nonfarm families in rural areas, even more than farmers, are dependent, if they want to stay in or near the countryside, upon nonfarm economic opportunities for themselves and for their children as they grow up.

Some nonfarm jobs in rural America are dependent directly upon good and adequate farm income, but not all of them are. We need diversified economic activity and opportunities throughout our rural areas if they are to become prosperous, attractive, and a home for an increasing proportion of the Nation's population, as I hope, in the national interest, they will become.

S. 2223 provides the economic muscle necessary to bring about many of the improvements that are needed in the countryside. One hundred and fifty years of rural-urban migration of people and an adverse balance of trade against farmers and rural businessmen have drained rural America and bled it white as far as capital resources and investment funds are concerned. Your committee has already printed the statistics of the lost investment represented by each child that migrates from rural America after receiving its education there, supported largely by rural taxation. Your committee—the Committee on Agriculture and Forestry—has wrestled for years trying to overcome the capital and income drain represented by farmers' adverse terms of trade where farmers pay what they are asked, as Chairman Humphrey has said so many times in these hearings, and take what they are offered.

Moreover, recent research is beginning to reveal that even a large share of the profits and savings that farmers and other rural residents are able to eke out under adverse trading conditions and weak bargaining power—a large share even of those profits and savings—do not stay in rural America but for whatever reasons find their way into large city investments of one kind or another, and are lost to rural America.

The result, Mr. Chairman, is a continuing and heavy drain year after year on the productive resources and people of rural America.

S. 2223, when enacted and implemented, will be a large step in the direction of correcting these adverse and debilitating conditions in rural America. Mr. Chairman, I support S. 2223 and urge its early enactment.

Among other needed improvements, rural America must have more, better, and higher quality community facilities and services and more and better paying jobs and higher farm income. Rural Americans in adjoining counties need to be able to work together in the modern enlarged multijurisdictional rural community to plan for and bring about these developments and improvements in the quality of rural life. One of the best coldly analytical papers I have seen on the strategy for rural development is this paper delivered recently by Dr. William C. Motes, Director of Economic Development Division, U.S. Department of Agriculture's Economic Research Service, to the recent meeting of the American Agricultural Economics Association. I request permission to insert it in the record of the hearings at this point in my testimony.

S. 2223 meets these essential needs in a direct and comprehensive fashion.

More, better paying jobs requires prosperous economic enterprises—industry, outdoor recreation, Government installations and contracts, and business activity—and all of them require financial investment of large magnitude.

Better community facilities and public works require investment of a large magnitude.

Operating those better community facilities and upgrading the quality of rural community services require the ongoing income to cover operating costs. A poor community cannot afford good schools, or even a sewer or solid waste management system that will meet antipollution standards.

We are demanding and setting ever higher standards of quality in environmental protection, education, and all other phases of life, as we should, and as testimony of other witnesses here will bring out.

But if a rural community does not have the tax base and income to meet those standards no matter how much its residents would prefer the higher quality services, the community has no recourse except to fold up and help its residents to move away thus heighten impact upon the already overcrowded cities.

Mr. Chairman, we need not only more investments flowing into rural America, but we need to restore the confidence of businessmen and investors that they can make money by locating in rural America.

S. 2223, as you have introduced it, will meet a large part of these needs. S. 2223 combines rural location incentives in the form of capital grants and interest supplements with available credit to insure the building and establishment of public and private facilities, services and economic enterprises, and their successful and profitable operation on a sound businesslike basis.

The sound, hard nosed, long term approach, Mr. Chairman, is provided in title II; title I will provide financial resources that are needed immediately on what might be called a soft credit basis, while the title II institutions are getting underway and rural prosperity is being restored.

One of the most satisfying experiences of my life, Mr. Chairman, was in connection with Farm Security Administration, assisting former sharecroppers through a combination of loans and grants to become owner-operator farmers. One of my greatest satisfactions now is to visit with some of the sons and daughters of those former sharecroppers who were enabled by the increased family income to go on to college. Many went on in life to superior leadership in rural affairs and many into positions of renown and great contribution to the Nation in all kinds of professional work, art, and music. My point is: Rural people want to work, want to earn decent incomes, want to participate in the mainstream of national life, and if given an opportunity, are fully capable of doing so, even beyond the age 62 to 65 retirement cutoff.

S. 2223 would provide for all rural America the same kind of opportunity that we earlier provided to the families on the project. The people of rural America will respond as successfully as did those former sharecroppers.

Mr. Chairman, the credit and investment resources that would be provided by S. 2223 are sorely needed in rural America. Existing private banks and other financial institutions simply cannot cope with the situation because they do not now have the needed lending authority.

S. 2223, rather than setting up a competitive rural financial structure, will instead vastly strengthen the ability of the existing private rural financial structure to meet the needs in the rural America. The permanent privately owned institutions provided in title II working with permanent private rural banks will be vastly superior to adding still another Federal credit bureaucracy.

The Federal programs we have are doing some good as far as they go. But they are not nearly adequate to the need.

Farm Credit Administration is limited, and probably should be limited strictly to farm credit.

Farmers Home Administration, in addition to its farm loans, is restricted to water, sewer, solid waste disposal, outdoor recreation, forestry, and a few other purposes.

The loan programs of the Department of Housing and Urban Development simply do not extend in a workable way into rural America.

Small Business Administration is restricted to loans of less than a relatively small size; if we are going to really build rural America, we have got to provide financial resources much greater than Small Business Administration is designed to provide.

Economic Development Administration does not serve at all well in rural America. Moreover, the funds available to it are so tightly categorized and so restricted, that just one catfish production and processing project that we would like to get underway in Arkansas would exhaust all of the funds that EDA will have for all purposes in a 5-year period.

If we are going to build rural America at the rate we must, some provision for linking the central money markets successfully to the rural investment needs must be found. Title II of S. 2223, patterned on a successful example of the Federal Land Banks and Banks for Cooperatives will do the job that must be done in the magnitude which will be required.

The capital grants and interest supplement payments provided in title II which amounts to what might be called rural location incentive grants are demonstrably absolutely essential.

I will not take the time of the subcommittee to give examples, but I could present you with the names of a thousand villages and small towns in the States where we have been chosen to operate Federal programs but the repayment ability is not currently provable to enable these communities to undertake the full load of principal and interest repayment and operate the facilities at an adequate level. The part of the cost of construction and amortization that cannot be met from revenue must be made up by a special incentive payment.

I want also, Mr. Chairman, to emphasize the importance of the provisions in the bill for rural location incentive payments to private economic enterprises. There is a strong feeling among industry locaters around the country that construction and operation of an industrial enterprise is costlier and less efficient in a rural than in a suburban area. I do not believe that it is to the extent that many industry location vice presidents seem to think.

But the fact remains that many economists, many industrial analysts, and others are strongly convinced of the supposed benefits to industry of concentration in a congested area where many other industries are located; so that they can in some way feed upon and benefit from each other's activities and labor pool. Higher costs of transportation, greater difficulty in organizing for needed community facilities, lack of cultural outlets, educational, and artistic facilities for management personnel, and a thousand other reasons seem to militate against locating in small towns and open country.

I think that specific Federal incentives are going to be required to overcome this bias, if you please, against rural industrialization. I think the kind of incentives provided by the proposed Rural Development Investment Equalization Administration in S. 2223 are going to be required to provide a powerful enough incentive to attract really big national and supernational and foreign corporations to make really significantly large investments in industrial plant capacity in rural America to provide the jobs required if countryside U.S.A. is going to provide a home for most of the expected 100 million population increase in the next 40 years or so.

Moreover, I think the sponsors of S. 2223 should be commended for proposing that rural location incentives are provided right straight out in the open as direct payments designed to attain a high priority national purpose, rather than attempting to hide them as artificially low interest rates or as special tax advantages or other forms of backdoor financing. If the country really intends to implement title IX of the Agricultural Act of 1970, as I think Congress intended, then let us meet this issue of incentive payments face on.

These payments are not payments to marginal industry; many of them will go, I hope, to some of the most successful corporations in America. They are not relief payments. They are not payments to prevent business bankruptcy. They are outright payments to induce business managers to decide to locate their plants and new jobs in rural America instead of locating somewhere else.

Now, Mr. Chairman, I want to emphasize the importance that S. 2223 clearly includes in both titles I and II, vocational technical education as a rural development purpose for which loans and incentive payments may be made. Our Rural Poverty Commission, of which I was privileged and honored to be a member, was impressed with the high importance and great contribution of which these institutions are capable. I understand that your subcommittee has visited some of these in the course of your field hearings.

The importance of making certain that these institutions are included as eligible applicants for S. 2223 programs is underlined by the extreme difficulty with which these institutions are being able to finance their projects through existing Federal loan and grant programs such as Economic Development Administration. I do not know for sure what the trouble is, maybe it is overcategorization of the EDA funding structure or its failure to reach into any area which has not already dropped to the bottom of the poverty category. Whatever it is, the vocation technical schools and institutions are worthy of and need the help that could be provided through S. 2223.

Mr. Chairman, I worked in Farmers Home Administration and its predecessor agencies for many years. It is a great agency and has a good program. It will be strengthened and improved by the changes in organization structure provided in title I of S. 2223.

As more and more functions have been assigned to Farmers Home Administration, there was less and less full time attention that the Administrator and his staff could give to the critical credit problems of farmers unable to obtain credit from conventional sources. The result has been that farmers have felt more and more neglected by FHA; and if the additional responsibilities added by S. 2223 should be placed on FHA in absence of the proposed reorganization, then this neglect of purely farm credit would worsen.

S. 2223 provides for specialized administrators of Presidential appointee stature, one purely for farm credit and one for nonfarm rural development credit. This is a wise provision, Mr. Chairman, and I urge you to retain the provisions in the bill.

Now, Mr. Chairman, there has been some question why S. 2223 needs to have title I in addition to title II. Mr. Chairman, for those of us familiar with why we need Farmers Home Administration, in addition to Farm Credit Administration, the answer should be simple.

I have always noticed that Farm Credit Administration works better in an area where there is strong FHA. I have also noticed that there are always some credit worthy projects badly needed to attain rural development goals that simply cannot, at their initiation, meet the stern credit requirements and collateral backing required by the title II type of funding through sale of bonds and debentures in central money markets. Most of these projects will graduate to sound credit status, just as most FHA borrowers are graduated to conventional creditors. But right at the beginning they need a source of credit to provide venture capital, if you please, to get started. If we are to revitalize and recapitalize rural America, as I think your subcommittee intends, to the degree necessary to bring about a more general, better balanced national growth pattern envisioned by title IX of the Agricultural Act of 1970 over the next 3 or 4 decades, then title I is a necessary complement to title II.

Mr. Chairman, there are some minor improvements I would like to suggest in S. 2223. But I do not want my mentioning them to detract one bit from my wholehearted support for the enactment of the bill.

One improvement I would like to suggest is that private and public technical vocational schools be made specifically eligible for the loans and grants provided in both titles I and II for the manpower training and development and development projects they are capable of sponsoring.

Another improvement I want to suggest is that in addition to the requirement for review by district planning and development boards, I would like to see such multijurisdictional boards made eligible to receive project planning and review payments so that they may adequately expand their staffs to undertake the work that will be placed on them by S. 2223 if it really goes into full-scale operation.

I realize that this might be considered by some a duplication of the present 701 grants; but let's look at it rather as payment for service rendered.

Third, I am not so sure that S. 2223 should be as careful as it is not to step on the toes of EDA, SBA, and other Federal credit programs, nor so careful about not financing rural industry at the expense of suburban industry. You gentlemen know better what kind of legislative problems you are up against in getting the bill through. But as far as I am concerned, no more than EDA, for example, is doing. I would just as soon you sent up a program that will just simply move right on past EDA and get a really significant rural development credit program underway.

Gentlemen, I deeply appreciate this opportunity to have visited with you about the investments needs of rural America.

Mr. Chairman, my interest in the national balanced growth policy that the Congress enacted last year is not in its geography and economics, as important as those are, but most importantly because of its potential beneficial effect upon people—the people of rural America and the people of the central city ghettos particularly.

It was my privilege, along with other witnesses, to attend field hearings as a member of the President's Commission on Rural Poverty.

Gentlemen, this was an experience that I know you are sharing in your field hearings of this subcommittee. We found, as I know you are finding, that major urban problems and rural problems are woven together. As Chairman Humphrey has put it, the crisis flood in the ghetto started from neglect out on the rural watershed. Our Commission found rural Americans to be a proud people, a worthy people, a people who given opportunities for good paying jobs and adequate community services would out produce anyone under the sun and enjoy a higher quality life while doing so.

Just one word, Mr. Chairman, to request your subcommittee to give particular attention to the needs and capabilities of the senior citizens of rural America. Our experience administering Green Thumb and other mainstream programs indicates that these senior citizens need more income and they enjoy having a job to earn it.

I urge you, as earnestly as I can, to approve S. 2223 and to move it toward final enactment as quickly as you can.

I, and the organizations with which I am associated, stand ready to assist you in any way we can.

Senator Humphrey. I notice one paragraph here where you said: "I have always noticed that the Farm Credit Administration works better in an area where there is a strong FHA."

Mr. Johnson. Absolutely. All the banks work better in an area where there is a strong FHA.

Senator Humphrey. In other words, it provides some underpinning and some developmental assistance.

Mr. Johnson. Certainly. Well, the Farm Credit Administration never did go far enough: the banks never did go far enough. They weren't set up to handle the rural problems, and none of them are set up to handle it totally now. And that is where you are coming in with this fine thing to handle it.

These people that spoke here this morning, this type of financing folks, they never were set up to handle anything; they were set up to come in and get the gravy. And then they want to talk about tax. If they would just check their records, the rural people carry the heaviest burden of the tax programs of this country.

Mr. Chairman, I have talked too long and I have said too much.

Senator Humphrey. It has been very fine, Mr. Johnson.

Mr. Johnson. We have been privileged to sponsor a lot of the programs. We have got some programs out there now that we don't think are rural oriented, even the economic rural development program. We have got eight of them in Arkansas and we are spending a lot of money studying them each year. And Ozark has become a studying program, a research program. There seems to be a tremendous trend this day and time to research and to study. Our public health service there got a half a million dollar grant to study 2 years. For what? To see whether the rural people needed any health services.

Senator HUMPHREY. Yes; I know.

Mr. JOHNSON. My, that is one of the silliest things I ever heard of. We are undoubtedly the steadiest researching people in the world. We have had the privilege of spending $22 million of the Government's money since 1965. We have handled several different programs—the neighborhood youth corps, the green thumb, the displaced farmers. We have been in the training business for our trade schools and our colleges and our industries, our job and on-the-job training programs, and the health program for senior citizens—and I want to say this to you: We know in Arkansas what the needs are. We can pick up our phone and put a program into effect tomorrow. All of this stuff about studying and planning is for the birds. This emergency employment program they have got now for the Governors, we have got 5 million in Arkansas. The rural counties in Arkansas got 2 million. It isn't a drop in the bucket, and you are talking about an emergency program?

Labor here several years ago gave us $2 million in Arkansas, and we subcontracted under employment security for a half a million, concentrated employment program. We remodeled the Farmers Home Administration borrowers' homes where they would get a grant from the Farmers Home Administration for $1,500 and we would go in there with a training program and completely modernize that farm home. And you never hear any more about it.

So we hit and run, and don't do enough to spit in the bucket. Concentrated employment program? What is concentrated about a half a million dollars in Arkansas? Why, it is disgraceful!

Now, I would hope—and I am going to say this and hush—I would hope that we end this darned war in Vietnam. Now, you know and I know that you have got to have a strong national budget. You have got to have that money going out if you are going to have that money coming in, and we want to take that money and spread it out here in this rural area on rural development, training people and building decent facilities to live in. It is a disgrace to the American society, the type of homes that some of our people live in, and it doesn't matter whether they are black, brown, any color; they are people. They are all American citizens and we ought to do something about it. And we can do something about it. That is why I am so doggoned glad you are back.

Thank you, Mr. Chairman.

Senator HUMPHREY. Thank you very, very much. And I only wish that ever person in the Senate could have heard your testimony.

Mr. Story.

You are from Lexington, Ky.

Go right ahead, Mr. Story.

STATEMENT OF BEN H. STORY, JR., LEXINGTON, KY.

Mr. Story. Thank you, Mr. Chairman, for the privilege of being here.

First I would like to thank you for the privilege of appearing here in the cause of a better rural-urban balance and on behalf of Senate bill S. 2223, or any bill and/or amendment that might be perfected to further this cause.

A major step was taken when Congress committeed itself to a "sound balance between rural and urban America" in the Agricultural Act of 1970, but commitment is meaningless without implementation.

A few weeks ago, in a Lexington, Ky., newspaper, I read about the Rural Development Credit Act introduced by Senators Talmadge and Humphrey. I was compelled to and did write the Senators of my favorable reaction to their proposal. With my letter, I forwarded to them copies of correspondence I had in August of 1967 with Dr. Robert Weaver, Secretary of Housing and Urban Development, concerning the rural migration problam and its probable resultant influence on cities. This resulted in an invitation to support my premises before this committee.

Migration problems are not new, or is migration a problem per se. Our Nation was settled by migrants from Europe seeking a new world, and our country developed through our migration westward. But, the crux of our problem today is that migration has reversed as people now move to populated areas instead of away from them. Many of our rural migrants are like ricocheting bullets inside a tank. The poor are trapped in the center cores of our cities while the affluent flee to the suburbs. The poor rural migrant cannot adjust to the hostile environment of the city, and the affluent urbanite refuses to be his poor brother's keeper—or his neighbor. The Rural Development Credit Act could release the rural migrants from the exploding tank and make it economically possible for them to go back home. It could give some stability to our country by at least slowing and, hopefully, reversing the present migration.

You should not be expected to give credence to anything I will say without some information as to my background. So, hoping not to bore you, I will attempt to give you some deep firsthand reactions and observations of a former dirt farmer and rural migrant turned real estate appraiser and consultant.

My education in rural migration began in 1923 when, as a migrant, age 9, my parents rented a farm on a 50–50 livestock-crop basis, and we moved from a one-room school neighborhood in Fleming County, Ky., to a neighborhood of wealthy landowners with a consolidated school for grades one through 12. I quickly became conscious of my relative status in life when a rich old landowner poked fun at my ill-fitting, bargain store clothes.

My contact with the "outside world" was still limited for many years. I graduated from high school in 1931 but couldn't go to college because of lack of finances, so I stayed a dirt farmer. World War II provided the impetus for leaving the farm at age 29. After a few months in the service and at 30 years of age, I enrolled at the University of Kentucky as a freshman. Coming from the Bible Belt, I was due for many shocks and adjustments. Later I migrated north to Indiana to teach vocational agriculture, but in the early 1950's the low salary of teaching guided me to real estate. Since then I have lived in urban areas, but worked with and for both urban and rural peoples. I know personally what it is like to be homesick and lonely for the rural life.

There is much evidence of desire on the part of the rural migrant to go back home to work and live. Over the years I have talked to hundreds of these people and their families. Let me cite a few cases which really symbolize the desires of many rural migrants today.

A young electronics engineer, originally from Wolfe County, Ky., followed an uncle north several years ago to seek employment. When Control Data recently built a new plant at Campton, Wolfe County, Ky., he sought employment there and was told that there were many, many applicants for that job and it had already been filled. If he had the opportunity to continue his work here he would immediately move his family back to Wolfe County to live. When I asked him how many homesick Kentuckians would come home if jobs were available, he smiled faintly and said: "They couldn't build enough plants."

While working in Harlan County, Ky., I employed a capable young man who had just returned home from a northern city with his wife and two children. He gave up a good job with a computer firm because he was homesick and unhappy. He was working for $2 an hour as a carpenter when I met him.

An east Kentucky coal mine disaster recently took the life of another young man who had also just returned home with his wife and children. To return he gave up his job in a northern city even though there was no work here other than in the coal mines he hated.

An embittered, disabled Vietnam veteran, "holed up" in a hollow of east Kentucky, stated that he would never leave home again no matter what. He said he would make out some way even though there were no jobs available.

There are thousands of case histories of how deeply these people desire to live in their rural communities and what sacrifices they make to do so. Just watch the traffic on Interstate 75 southbound on Friday evenings and northbound on Sunday evenings. Hundreds of the cars carry Kentucky natives who seek relief from northern cities on frenzied weekend trips home. Their loneliness and homesickness result from the attempt to adjust to the strange and sometimes hostile environment of the city.

You don't gain awareness or much knowledge of how rural people feel from a textbook or from reading the newspapers. You must get it from the day-to-day contacts with these people—visiting them in their homes, roaming their fields and goods, climbing their hills and mountains, and most important of all, discussing with them their loves and hates, their likes and dislikes, and their dream of jobs and economic development for their rural communities.

They understand that rural America has acted as a sponge, absorbing the people when there were no jobs or when jobs were scarce, and releasing all of the people except the very old and the very young when a war is to be fought and the men are needed for the war, and the women needed to work in defense factories. They understand what this spongelike action does to a society. They know better than any of us that the crisis of rural America created the crises of urban America, and that, likewise, the cure must begin where the illness orginated.

For 16 years I have been teaching adult night classes in real estate principles and appraisal at the University of Kentucky. My teaching and lecturing has also led me to Purdue University, Kentucky State College, Eastern Kentucky University, Western Kentucky University, University of Kentucky Somerset Community College, Lexington Theological Seminary and other places. Most of my students have been natives of, or were living in rural communities. We have spent many hours discussing, studying, stewing, and even swearing at the Government about our rural-urban problems.

Unfortunately, many professional planners and urbanologists today do not understand rural people. They propose moving these people around like pawns. Theoretically, it may sound like good economics to transplant people from depressed areas to the west coast, or to Texas, or to some other economically developed areas; but, these planners have no concept of what happens to family life and to individuals.

In Lexington we experienced a doubling in divorce rate in 1 year—1956–57, and this is the year our largest industry moved into town—International Business Machine. This increase was caused by families migrating to Lexington but failing to cope with the rapid change from rural to urban life. Any oaf knows that you can pull up a young sprout of a tree, transplant it, and with a little care it will probably live; but he also knows that you can't pull up a full-grown tree and transplant it, give it a little water, and expect it to live.

To successfully transplant that full-grown tree you must treat it tenderly and move it with its source of energy—its roots and soil balled and burlapped—to its new location. Many supposedly intelligent Ph. D.'s can't seem to understand that this same principle applies to human beings. Fortunately, there is a planning philosophy today which incorporated all of the elements of man and his settlements. This philosophy is called Ekistics, and I would like to tell you briefly how I learned about it.

In 1967, having decided that I needed to study urban problems and planning under the best, I inquired of some planners and urban renewal people where I might go to get the knowledge I sought. The Ekistics seminar at the Athens Technological Institute in Athens, Greece, conducted by Constantinos A. Doxiadis, was highly recommended. So, in July 1967 I attended a 2-week Ekistics seminar in Athens, and while there I vowed to do something in my own small way to help solve the rural and urban problems in our country.

After returning home I wrote to Dr. Robert Weaver, Secretary of Housing and Urban Development, suggesting that Dr. Doxiadis' team of Ekisticians be employed to study our migration problems. I was confident they could help us.

I was and am intrigued by Doxiadis because he is a thinker and a doer—most of us are not. We have many people at this moment with their feet propped on a desk thinking, and this could be good. And, we have many people doing and not thinking, and this could be good.

But, if the human race is to survive, then we must have some thinker-doers. In his book, "Between Dystopia and Utopia," Doxiadis writes:

"The mason thinks at night and builds during the day." In his simple way he has to reconcile the two personalities, the thinker-philosopher and the builder-architect. If he has thought enough about his work he knows that he cannot play God. If he has built enough, he knows that in the morning he has to pour the concrete.

There are times when problems are so great that the doers cannot wait for the thinkers to finish their thinking. Today is one of those times. We need thinker-doers. We need quick action like President Roosevelt took in the thirties when he implemented programs such as the Farmers Home Administration, the Soil Conservation Service, and the Federal Housing Administration, and like President Nixon took recently when he recognized our worsening economic situation and called for the 90-day freeze.

My field is not political science, and I have not had time to study as thoroughly as I would like bill S. 2223, amendment No. 153, and proposed amendment S. 1483, but I studied them enough to know that you are thinking in the right direction and I hope that you will innovate to the fullest.

It is my best thinking that for proper rural-urban balance enough credit, subsidy, help or call it what you will, must flow back to rural areas so that each American can live where he pleases with equal opportunity for all.

With our intelligence, our technology, and our manpower, is it wrong to believe industry can come to the people, that community colleges and training schools can come to the people, that roads can be hard surfaced so that those desiring to live in the countryside may live on and drive to work and school over good roads? Isn't each home, urban and rural, entitled to facilities for water, gas and electricity? Do the results of the Rural Electrification Act give us some indications of what can be done? I ask these questions to suggest the potential of your bill.

I would like to digress for a moment and tell you something that in my opinion is basic. People must have jobs. To reason with a man he must be relatively comfortable as far as shelter, food, and clothes. I will say to you that the WPA, CCC, and the "Happy Pappy" programs were not good, but they were better than nothing. A man is nothing but a vegetable when he has no job and when his pride is gone. May I give you some examples?

Many of us were and are "survival-oriented." As a young farmer in the thirties I was conscious of soil conservation because the soil was the source of my survival. I was not, however, concerned with the social welfare of the migrants I drew from Appalachia. I was only interested in working them as many hours a day as possible and holding their pay at $1 per day. No, this was not a living wage, but it was all you could pay when tobacco brought 7 cents a pound.

Today in appraising rural properties we find many residences with a bathroom but no septic or sewage system. The sewage is dumped directly into the streams with no embarrassment to the rural occupant. He is proud of his bathroom, but he can't affort a septic system. Can you argue, discuss, or debate pollution with one who has to brush snow from the toilet seat before using it?

Back in the early 1930's there was a tragedy I remember very clearly. A middle-aged man with a large family begged a wealthy landowner one day to let him raise an acre or two of tobacco on the "shares," and he also wanted room for a garden and enough pasture for one cow. The wealthy landowner said no. That night the poor man hung himself in a tobacco barn. When told, the landowner said: "If I had of known, I would have let him raise a crop of tobacco and a garden." It must be admitted that even today many who desire to work cannot find work. Do we, as citizens and Congressmen, become the "landowner" when we do not provide jobs and opportunities in our complex society?

I asked my friend, Dr. James W. Gladden, of the Sociology Department at the University of Kentucky, if my thinking was correct—that many people still wanted to work and did not want handouts and gifts. He referred me to a study he had made for the Office of Economic Opportunity during the period 1965–68, titled "Family Life Styles. Social Participation Mountain Neighborhood, Unit No. 4," August 1968. This study was of the rural in Knox County, Ky., and on page 3 in the abstract he states:

> The great majority are still resisting chronic dependency. The region needs most a creative, imaginative provision for economic development which the national OEO decided in 1965 and again in 1968 not to implement.

This reinforces my thinking that typically the poor want jobs and equal opportunity rather than handouts. Your bill should do much toward providing these jobs and equal opportunities.

Earlier I mentioned Doxiadis and Ekistics. Ekistics is defined as "the study of human settlements." It is my interpretation that Doxiadis' theory is that all disciplines should be represented when planning is done. For example, Doxiadis had a top psychiatrist on his program one year—in 1966 he had Karl Menninger on the program, and somebody said, "Why do you have Karl Menninger?" But Doxiadis had a top psychiatrist on his program because it seemingly is a fact that there is a direct correlation between a city poorly planned and a high rate of mental problems. Now we would probably all concede that in our urban renewal programs we started with buildings instead of people. I believe we have learned that we should have started with people.

Attached to and made a part of this is a copy of my letter in 1967 in which I suggested that a study be made so that Congress would have facts so that they could make proper appropriations. I would like to read a part of that letter:

> The following are facts as I interpret them:
>
> (1) A large percentage of the population of Appalachia and other southern states are not properly housed, educated, fed and clothed.
>
> (2) Farm production is ceasing to be a problem as such, but one consequence is that many humans are being forced from the rural areas into the urban areas.
>
> (3) The migrants in many cases are not equipped to cope with the urban area; and migration should be slowed, stopped, or reversed until the migrants are prepared.
>
> (4) From all indications, if present factors and forces continue without any effort to alter them, this steady northward migration will continue.
>
> (5) Many studies have been made by universities, public organizations, private organizations, and individuals; but to my knowledge no study encompasses this entire situation, with its positively interrelated (although they are not immediately recognized as such) causes, trends, and effects.

(6) Unless some excellent plans are made and implemented, society in the urban areas cannot absorb the migrants any more than the migrants can accept the urban ghettos; and in this period of transition we can anticipate an increase in riots, crime, dope, divorce, and build-ups of breeding grounds receptive to communistic agitation.

(7) If Congress were presented broad, comprehensive, detailed plans and recommendations, it would be much easier to appropriate money than with vague and piecemeal plans.

If my suggestion or a similar one had been implemented, then today you could have the facts with which to judge your course of action.

I talked with Dr. Doxiadis in 1967 and I asked him if it would be possible to measure the cost of moving industry to the people in the United States and also measure the benefits that would accrue to our cities. He stated to me that it would be possible. This was shortly after our major riots. I would suggest that the U.S. Government can afford the best and should use the services of Dr. Doxiadis.

Senator HUMPHREY. I had the thought in mind when I was seeking the highest office in the land that a number of these demonstration cities, not the major cities, but some with a couple of hundred thousand population, could be used for just what you are talking about to see how it would work, to see if it would bear out our expectation. I think it would. I think you are right, that you have to put in all these services if you are going to get a real evaluation.

Will you continue.

Mr. STORY. I must finish quickly. I am sure all of you dreamed and hoped for things, had them within your grasp and then they have been taken away. Please don't give hope to rural migrants unless you are fairly sure you can implement your plan. Right now many poor people in the cities are completely disillusioned because HUD's 235 program for existing houses was suddenly dropped.

In summary, over the past few years I have talked with many people concerning our rural-urban problems. These people vary greatly in education, income, social standards, and likes and dislikes. They have all disagreed with me and with each other on the causes and effects of our present-day situation, with the exception of two things. All are in accord that: (1) It would be good if industry could be moved to the people instead of the people having to move to industry; and (2) that one of the most damaging things to society and the belief in our way of life are broken Government promises.

Thank you, Senator. It has been a pleasure to be here.

(The letter to Secretary Weaver referred to follows:)

BEN H. STORY, JR., REAL ESTATE,
Lexington, Ky., August 28, 1967.

Mr. ROBERT WEAVER,
Secretary, Department of Housing and Urban Development, Washington, D.C.

DEAR MR. WEAVER: Could you use an "omnipotent, all wise one" today to help you diminish our urban problems? Unfortunately, we have none; but how about a team of experienced Ekisticians?

Citizens of the United States watch your every move even as the rest of the world watches the United States. Recently while in Europe participating in the annual Ekistics Seminar, I frequently heard questions about our country and the most common was: "If you can't solve your problems of crimes, riots, poverty, etc., how can you possibly help us solve ours?" The implication from the undeveloped countries was obvious.

The purpose of this letter is to suggest that you consider employing this team of Ekisticians to make a comprehensive study of the interrelation of housing in some of our northern cities, living conditions in Appalachia and some of the poorer southern states, and the continuing northward migration.

The following are facts as I interpret them:

(1) A large percentage of the population of Appalachia and other southern states are not properly housed, educated, fed and clothed.

(2) Farm production is ceasing to be a problem as such, but one consequence is that many humans are being forced from the rural areas into the urban areas.

(3) The migrants in many cases are not equipped to cope with the urban area; and migration should be slowed, stopped, or reversed until the migrants are prepared.

(4) From all indications, if present factors and forces continue without any effort to alter them, this steady northward migration will continue.

(5) Many studies have been made by universities, public organizations, private organizations and individuals; but to my knowledge, no study encompasses this entire situation, with its positively interrelated (although they are not immediately recognizable as such) causes, trends, and effects.

(6) Unless some excellent plans are made and implemented, society in the urban areas cannot absorb the migrants any more than the migrants can accept the urban ghettos; and in this period of transition we can anticipate an incease in riots, crime, dope, divorce, and build-ups of breeding grounds receptive to communistic agitation.

(7) If Congress were presented broad, comprehensive, detailed plans and recommendations, it would be much easier to appropriate money than with vague and piecemeal plans.

A comprehensive study such as I have in mind would cover, among other things, the following:

(1) the levels of housing, income, education, et cetera in Appalachia and some southern states;

(2) the changes that have occurred in Appalachia and some southern states during the past 20 or 30 years;

(3) a tracing of movement from Appalachia and some southern states to ascertain final settlement places; levels of housing; standards of living; levels of education, etc.;

(4) an analysis of 1, 2, and 3 to discover what effects, if any, this is having in the northern urban areas;

(5) if the movement as reflected in 1, 2, 3 and 4 above is causing degeneration in our cities, then recommendations should be made to reverse the movement and/or prepare the migrants so they will not contribute to degeneration;

(6) an ascertainment as to whether apparent inevitability of internal migration within the United States should dictate changes in our national immigration policies.

It is impossible to predict what a comprehensive study and plan might reveal. It is entirely possible that it might convince us that in the long run it would be better socially and economically to bring more industry to our rural areas, even if by subsidy, thus slowing down the migration and giving us time to condition the rural people to urban living prior to their absorption by the metropolis and megalopolis.

If more industry must be moved to the people, then precedents have been set. The leaders in my own state have recently been able to attract industry thus slowing migration. With the rapid changes in technology, computers, satellite communication, nuclear power, etc., there may be little need for all industry to be in or near our large cities.

The only organization in existence which I believe is capable of making such a study and recommendations, as noted above, is Doxiadis Associates of Washington, D.C., with home offices in Athens, Greece. This organization is headed by the brilliant Constantinos A. Doxiadis who has applied his new discipline, Ekistics, to such problems as ours for many years.

Doxiadis has created cities and worked in many countries including the United States. I am convinced his experienced Ekistics team could make the study we need and come up with alternate plans of which at least one would be palatable to Congress.

Certainly the study that I have in mind is an overwhelming task. Even Doxiadis might be hesitant to undertake it. I am not even sure he would consider such a study unless we convinced him he would:

(1) have the cooperation of our many universities;

(2) be permitted to present alternate recommendations based on facts he finds, with the final decision of action left to others; and

(3) be rendering a great humanitarian service.

Many people today—the young, minority groups and others—seemingly cannot forgive us for what we have or have not done in the past. But the past is over. We look to the future. Must I answer this question years hence: "But, Grandpa, after the summer of 1967, why didn't you all do something?"

Sincerely,

Ben H. Story, Jr.

Senator Humphrey. You hear the bell. I am going to have to leave you in a minute. Do you have any concluding comments?

Mr. Story. I would like to say just one word: Don't forget we have got to furnish jobs to people. One of the most destroying things in our society is the people that cannot find work.

Senator Humphrey. This is the great gap that I see today in all of our economic thinking. We are all terribly disturbed about inflation, and about other things, but there isn't enough attention paid to how we can provide these jobs. We have 20 million more people coming into our work force in the next 5 years, and with millions of people already unemployed, that is going to mean a large unemployment. And this can eat the heart out of people and the spirit out of the Nation.

Mr. Story. I appreciate that very much.

Senator Humphrey. What is your present work?

Mr. Story. I am an appraiser in real estate and I advise people what to do, people that own farms, own land, and colleges, what to do with their properties, and things like that.

Senator Humphrey. You have had this educational background and experience, and it is very helpful to the committee.

Mr. Story. I didn't get to college until I was 30. I was raised on a dirt farm, and this gave me an opportunity to really know what it was like and I came here, I hope, representing all the people hurt by this rural-urban imbalance.

Senator Humphrey. I will let you go now, and thank you very much.

With respect to the multijurisdictional general purpose areawide planning and development districts utilized and strengthened in the Farm and Rural Development Credit legislation, S. 2223, Chairman Talmadge of the Committee on Agriculture and Forestry, our parent committee, requested the Department of Housing and Urban Development for additional information to supplement that provided in the original report on Federal assistance to planning districts under title IX of the Agricultural Act of 1970. The response of the Department has now been received. It provides a complete picture, insofar as the Department of Housing and Urban Development has it, of the organization, staffing, and funding of the districts under the 1968 amendments to the section 701 planning grants program as adopted in 1968. Since this new material has not been published elsewhere, and since the information has a direct bearing on an important institution upon which we rely in the rural development credit system, I request permission to insert the reponse of the Department of Housing and Urban Development in the hearing record at this point. Without objection, so ordered.

(The information is as follows:)

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C., July 15, 1971.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your letter of June 4, 1971, requesting additional information on nonmetropolitan district planning and Section 701 of the Housing Act to supplement the November 30, 1970, report to Congress, submitted pursuant to Section 901(c), Title IX of the Agriculture Act of 1970.

The enclosed statement and materials should provide the information you requested. However, if you should desire further information please let us know.

Sincerely,

GEORGE ROMNEY.

INFORMATION ON A DISTRICT BY DISTRICT BASIS

The following replies are in narrative form rather than tabular form because the answers apply to all of the HUD-assisted agencies listed in attachment number two of the November report. Specific points are as follows:

BOUNDARIES OF DISTRICTS

The boundaries of all districts have been legally established by official State action. All boundaries are established by either State law, governor's proclamation or with the governors concurrence.

DISTRICT GOVERNING BODY

The official governing body of each district is organized.

DISTRICT PROFESSIONAL STAFF

We do not have district by district data regarding their staffing. The "701" program does strongly encourage the building of agency staff capability rather than reliance wholly upon consultant services. Last year we did conduct a very general survey of our field offices as to the staffing of districts. The results of the general survey indicated that approximately 90 percent of all districts have one or more full time professionals employed. Approximately 50 percent of all districts use consulting services.

OFFICIAL RECOGNITION OF DISTRICTS

All of the districts on the list have been determined eligible and have been provided assistance. Although the Department does not have an official registration process, since we have determined them to be eligible one could say that that constituted official recognition.

DISTRICT FUNDING UNDER "701"

The amount of funds which have been provided by the Department under Section 701 to nonmetropolitan districts for fiscal year 1969 and 1970 are shown on page three, Table 1, of the November report.

AMOUNT AND NATURE OF OTHER FEDERAL FUNDING

We do not have information regarding the amount of other federal funds which have been used by districts. As indicated in the fourth paragraph of page four of the November report there are several federal programs which are frequently used. That list indicates the nature of other federal assistance which is available.

AMOUNT OF STATE AND LOCAL FUNDING OF DISTRICTS

We do not have information on the amount of state and local funds provided to districts, except to say that the required matching funds for "701" grants have been provided. The enclosed report by the Council of State Governments (in notebook) and the copies of State enabling legislation will provide you some information in this regard.

AMOUNT AND NATURE OF FUNCTIONAL AND PROJECT FUNDS MADE AVAILABLE TO DISTRICTS

We have no information as to the amount of functional and projects planning funds which have been made available to districts. As to the nature and source of such funds, please refer to the enclosed three page listing of functional planning programs as of 1969. We do not have information as to their usage.

DISTRICT POWERS

Enclosed are three copies of state legislation and/or governor's proclamations. These will provide you detail information on the powers, duties and responsibilities of districts by state. To the best of our knowledge only Arkansas districts have the power to carry out development (construction).

(Note. Material cited on file with Rural Development Subcommittee.)

As requested, enclosed are three copies of State legislation and/or governor's proclamations. There are a small number of states which did not respond to a request for this information, therefore the enclosures are not complete for all fifty states.

(Note. This material is on file in Rural Development Subcommittee.)

HISTORY OF REQUESTS AND APPROPRIATIONS UNDER SECTION 701

For convenience, your question has been divided into three parts. The first part deals with requests and appropriations for all of Section 701. The second part identifies requests and expenditures for nonmetropolitan districts (including Economic and Local Development Districts). Your items re: commitments and expenditures have been combined into one item as they are essentially the same.

[In millions of dollars]

	Fiscal year—			
	1969	1970	1971	1972
Pt. 1. Comprehensive planning grants summary:				
Amount recommended by HUD	69.0	120.0	75.0	125
Amount approved by OMB	55.0	60.0	60.0	100
Amount in Presidential budget	55.0	60.0	60.0	110
Authorization limitation	43.8	+60.0	+60.0	85
Amount appropriated	43.8	50.0	50.0	----------
Pt. 2. Nonmetropolitan areawide funding summary:				
Amount recommended by HUD	9.0	14.0	6.98	5
Amount approved by OMB	4.0	4.5	3.0	5
Amount in Presidential budget	4.0	4.5	3.0	5
Amount appropriated	(2.2)	(1.9)	(2.3)	----------
Amount expended (actual)	.8	2.7	[1] 3.2	----------

[1] Denotes estimate.

Note: Figures in the above table line item indications in budget request. Appropriations are not by line item. The amount of appropriation shown above indicates the result of actual appropriations for the "701" program.

Part 3. This last part is in narrative and covers the remainder of the items in your question on appropriations and expenditures.

REGARDING THE NUMBER AND AMOUNT OF APPLICATIONS FILED BY DISTRICTS

The number and amount of applications filed by districts are for all practical purposes the same as the number and amount of applications approved (which is shown in the listing in the November report). Applications are not prepared unless there is reasonable certainty as to funding. In any event, the Department does not receive applications from districts. Rather, they are submitted to the States who have full administrative responsibility for nonmetropolitan districts and supervision of their performance.

REGARDING CONGRESSIONAL LIMITATION ON TOTAL FEDERAL EXPENDITURES AND PRESIDENTIAL WITHHOLDING OF APPROPRIATED FUNDS

Neither of these have affected the assistance available under Section 701.

FEDERAL PLANNING ASSISTANCE PROGRAMS

Program	Department agency	Fiscal year 1969 level of funding	Enacting law
General purpose planning:			
Comprehensive planning assistance	HUD (UMAA)	42.5	Public Law 83-500, 1954.
Urban information and technical assistance	do	0	Public Law 89-764, 1966.
Community development training	do	5.0	Public Law 88-560, 1964.
Community renewal program	HUD (RHA)	8.2	Public Law 86-372, 1959.
Regional action planning commissions	Commerce (EDA).	3.7	Public Law 89-136, 1965.
Functional planning programs:			
Economic development area planning	do	.76	Public Law 89-136, 1965.
Economic development district planning	Commerce	4.54	Public Law 89-136, 1965.
Economic opportunity planning development program grants:			
Subprogram A–Migrants	OEO (CAP)	.16	Public Law 89-794, 1964.
Subprogram B–Community action agencies	do	3.3	Do.
Subprogram C–Neighborhoods in Model Cities	do	1.0	Do.
Subprogram D–State Economic opportunity offices	do	.31	Do.
Air pollution control planning	HEW (PHS)	0	Public Law 90-148, 1967.
Planning and technical assistance for the aging	HEW (SRS)	1.9	Old Amer Act, 1965.
Appalachian regional development	(ARC)	1.55	Public Law 89-4, 1965.
National historic preservation	USDI (NPS)	.83	Public Law 89-665 1966.
Federal aid airport program	DOT (FAA)	0	Public Law 79-377 1946.
Model cities program planning	HUD (MCA)	22.12	Public Law 89-754 1966.
Juvenile delinquency prevention and control	HEW (SRS)	5.0	Public Law 90-44 1968.
Comprehensive law enforcement planning	Justice (LEAA)	19.0	Public Law 90-351 1968.
Comprehensive outdoor recreation planning assistance	USDI (BOR)	.72	Public Law 88-578 1965.,
Urban mass transportation studies	DOT (UMTA)	5.0	Public Law 88-365 1964.
Do	HUD (UMAA)	1.5	Public Law 88-365 1964.
Federal aid highway planning	DOT (FHA)	65.41	Public Law 89-564 1966.
Comprehensive water and sewer system and solid waste management planning.	USDA (FHA)	4.50	Public Law 87-128, 1961.
Solid waste management planning	HEW (PHS)	2.00	Public Law 89-272,
Water and related land resource	Water Resource Council.	2.602	Public Law 89-80, 1965.
Comprehensive water quality administration	INT (FWPCA)	.10	Public Law 84-660, 19th 89-753, 1966.
Comprehensive water quality management planning	do	1.25	Do.
Statewide comprehensive health planning	HEW (PHS)	7.37	Public Law 89-749, 1966.
Areawide comprehensive health planning	do	7.0	Do.
Elementary and secondary education program planning	HEW (OE)	0	Elementary and secondary education amendments of 1967.
Higher education facilities comprehensive planning grants program.	do	4.0	Higher Education Facilities Act of 1963.
Project planning programs:			
Urban renewal survey and planning advances	HUD (RHA)	18.20	Public Law 81-171, 1949.
Airport advance planning and edgineering	DOT (FAA)	.83	Public Law 79-377, 1946.
Resources conservation and development	USDA (SCS)	.83	Public Law 87-703.
Watershed protection and flood prevention	do	1.25	Public Law 83-566, 1954.

Senator HUMPHREY. One major feature of S. 2223 is its reliance upon the financial subsidiaries of the areawide general purpose planning and development districts of the States.

The Rural Development Credit Banking System would rely heavily on District Rural Development Credit Agencies to provide financial assistance to local banks and units of general government to extend credit to borrowers to establish and operate rural development projects. Borrowers would purchase voting shares in the district agencies and ultimately become their owners along with participating local banks and units of government which would also be authorized to purchase voting stock in the district financial agencies.

The district financial agencies in turn would own voting stock in and own and control the regional rural development banks.

Moreover, each loan and grant application as a condition of approval must be checked out by the multijurisdictional general purpose planning and development district board to determine the proposed project's consistency with the areawide plan developed for the district.

The council of State governments has compiled an excellent reference source summarizing State action toward establishment of substate, areawide planning and development districts, which will be the parent institutions of the district financial agencies established under S. 2223. I request unanimous consent to insert this document in the record of the hearing.

(The summary is as follows:)

STATE ACTION TOWARD ESTABLISHMENT OF SUB-STATE DISTRICTS

The enclosed summary is part of a Council of State Governments study of state experience in implementing the Intergovernmental Cooperation Act of 1968. The study, funded by the U.S. Department of Housing and Urban Development, reports upon recurring problems in implementation of the Act, and offers recommendations for federal, state, and local action toward overcoming them.

State action toward establishment of sub-state districts is clearly associated with effective implementation of the Act. The project notification and review system, established by OMB Circular A–95, provides a useful management tool for state and local elected officials. Maximum effectiveness depends upon the development of a coordinative planning process at state and areawide levels and subsequent linkage of that process with the clearinghouse function.

The enclosed report summarizes state action toward establishment of substate areawide planning and development districts, which provide the planning capability necessary to the A–95 project notification and review system.

REGION I

Connecticut

Connecticut has adopted a system of fifteen sub-state planning districts. Since July 1969, responsibility for delineation or redelineation of Connecticut's district boundaries has been located in the Office of State Planning, Department of Finance and Control. (Public Act 628 of 1969.)

District organizations, called Regional Planning Agencies, are formed at local initiative under Chapter 127, General Statutes. Thirteen agencies are presently staffed and operational. Connecticut Statutes also allow for the formation of regional councils of elected officials within the district boundaries.

State support to the Regional Planning Agencies is by regular appropriation and provision of technical assistance.

A–95 Clearinghouse review is carried out by the Regional Planning Agencies except for those which fall within the jurisdiction of the Tri-State Transportation Commission. The five Regional Planning Agencies within the Commission area are involved in the review process, but the Commission is the official clearinghouse.

Federally-initiated sub-state programs generally conform to Connecticut's district delineation.

Maine

The official designation of sub-districts in Maine is based on PL 1969, Chapter 382, Section 5, which gives the Governor of Maine authority to designate official regional planning and development districts. This law also requires that the Governor, before establishing such boundaries, shall obtain through the State Planning Office all relevant information related to this task and afford all parties affected adequate notice and an opportunity to present their views. The Governor may, after consultation with the State Planning Office, revise the designation of districts to reflect changing conditions or otherwise to fulfill the purposes of this law.

The State Planning Office has established eight tentative official regional planning districts for the state. The eight major drainage basins in Maine serve as the framework for designation of its official planning districts. These districts will be large in size but small in number so that they can encompass as many environmental and development problems as possible. Environmental protection will be a major consideration in the designation of these official districts. The eight tentative districts are now being reviewed with regional planning directors, municipal officials, state agency heads and federal agencies. Formal and detailed recommendations will be submitted to the Governor for his action, and designation is expected by mid-1971.

Although only two metropolitan districts have the A-95 review process at present, all official regional planning districts will eventually possess such functions.

In addition, they will perform the following four major functions:

(1) Comprehensive regional planning and areawide review authority for federal, state and local programs and projects.

(2) Serve as a governmental home for various federal, state and local development activities such as OEO, EDA, Regional Water Resources Planning and Control and Social Planning and Development.

(3) Act as a vehicle for the stimulation and performance of governmental functions on an areawide basis through councils of governments or other cooperative arrangements.

(4) Serve as an agency to receive and administer federal funds for regional organizations and inter-governmental cooperation on common areawide problems.

Massachusetts

Sub-state districting is undergoing change in Massachusetts. The state presently utilizes a set of twelve planning and development districts. The districts were established under several pieces of legislation over a period of several years. Three districts were established by special legislation at state initiative (Dukes Co., Old Colony, and MAPC); two under special legislation at local initiative (Cape Cod and Franklin Co.); one (SE Mass.) by state initiative under a general enabling statute; and the remaining six by local initiative under the same enabling legislation (Chapter 40B General Laws 1955 as amended in 1964).

These twelve districts, which include 99 percent of the state population, are primarily utilized for regional planning and development purposes and are supported by state appropriations, the provision of technical advisors by the state and federal funds under the HUD 701 program and other federal sources.

In all cases, they are public bodies and must have a professional staff. The percent of public official participation varies with the legislation under which the district was organized. All twelve districts serve as A-95 Clearinghouses, one is an EDD, and several coincide with LEAAs.

Massachusetts is currently adopting a new set of eight administrative districts. The change is required under administrative bulletin 65 (as amended).

The major accent under the new eight region arrangement will be upon provision of:

(1) administrative districts for state departments;

(2) groupings of service delivery areas; and

(3) geographic areas for program planning coordination both within and between state agencies and different levels of government.

Federal programs administered on a sub-state basis will be brought into conformance as the districts are made operational.

New Hampshire

Seventeen sub-state districts were designated by executive order December 26, 1968. These are currently utilized for both planning and administration purposes. Four are currently staffed and operational and five others are nearly ready to begin functioning. Districts are supported by the provision of state staff assistance and through state administered 701 planning assistance grants. District organizations are essentially regional planning commissions established under state enabling legislation, with members nominated by the planning board of each municipality and appointed by the municipal officers.

Rhode Island

Rhode Island has determined that the development of a system of sub-state districts is unwarranted at the present time. State officials cite Rhode Island's small size and relative economic and social homogeneity as the primary factors in the decision.

Vermont

Sub-state districting in Vermont is currently undergoing change. At present, the state has fourteen sub-state areas sanctioned under Chapter 24, Vermont Statutes annotated. These areas provide a basis for the establishment of areawide planning organizations. District organizations are Regional Planning Commissions and membership by a municipality is voluntary. Members are appointed by participating municipalities with no requirement for elected officials. Professional staff is encouraged, and staffing is supported by regular state appropriation. Under the existing arrangement, the districts serve as A-95 Clearinghouses.

Vermont is in the process of revising district boundaries for planning and administrative processes. The Advisory Committee on Administrative Coordination has recommended that a set of seven substate districts for regional planning and state administrative processes be established. These districts will also be established for coordinating federal activities.

Legislation to implement the recommendations of the Advisory Committee on Administrative Coordination is now before the 1971 session of the Vermont General Assembly. It is expected that the bills will be enacted into law.

REGION II

New York

New York state has established eleven comprehensive planning and development regions. These are utilized for local planning efforts and provide an areawide focus for functional planning by state agencies. Delineation of boundaries was originally carried out by the New York State Office of Planning Coordination in consultation with the various state departments and agencies and local governments. The regions were then declared by Executive Order #44 as the official comprehensive planning and development regions of New York state. Regional organizations have been established at local initiative under Article 5-G and/or Section 239-b of the state's General Municipal Law. These sections enable multi-jurisdictional planning bodies and interlocal cooperation. All regional agencies are public bodies, and professional staffing is a prerequisite for state support.

State support is provided by state matching of federal planning assistance funds, state functional planning funds, and provision of technical and staff assistance.

Federal programs administered on a sub-state level utilize New York's regional boundaries, and regional boards have been designated as A-95 Clearinghouses in ten of the eleven regions.

New York's accent in sub-state districting has been upon supporting local initiative. The Governor's executive order requires state agencies to utilize regional boundaries in their functional planning activities unless it is infeasible for them to do so. The order also requires state agencies to review the extent to which their administrative operations might conform to the same regional boundaries.

New Jersey

New Jersey has not designated sub-state districts. Sixteen of New Jersey's twenty-one counties are metropolitan and participate in metropolitan areawide planning bodies. The remaining five counties are not contiguous and each is considered an areawide planning unit. Each serves, as well, as a non-metropolitan A-95 Clearinghouse.

REGION III

Delaware

Because of its small size and relative social and economic homogeneity, Delaware has not undertaken a sub-state districting system.

The state clearinghouse carries out A-95 review of non-metropolitan areas of the state.

Maryland

A statewide system of officially designated sub-state districts does not yet exist in Maryland. At present, the state utilizes an incomplete set of sub-state units created incrementally and for varied purposes. Now in existence are two councils of government, two regional planning councils, sections of multistate planning and development agencies and a council on Appalachian Maryland created by executive order.

Maryland is moving incrementally toward adoption of a system of seven officially designated districts and delineation is complete. Formal adoption of the system is expected to be accomplished by executive order. A-95 review for non-metropolitan districts is carried out by the Maryland Department of State Planning.

Pennsylvania

Pennsylvania has a long standing tradition of sub-state organization, although, at present, no single set of districts has been officially designated for general use. Since definition of thirteen state planning regions in 1964, a variety of activities have been carried out on a sub-state, multi-county basis. In 1968, six Human Service Regions were adopted by gubernatorial action as a framework for the administration of nine major state programs.

Ten regional planning and development organizations are now operating within Pennsylvania, six of which are outgrowths of the Appalachia program.

Pennsylvania's basic regional policy is currently undergoing extensive reexamination. Among other things, a uniform system of ten districts is being proposed as a basis for unifying the fragmented districting situation now existent in the Commonwealth.

Virginia

A statewide system of sub-state districts was mandated by the General Assembly in July 1968, when the Virginia Area Development Act became law.

Twenty-two planning districts were delineated July 1969 by the Division of State Planning and Community Affairs. Local governments in a planning district may organize a planning district commission (PDC), but participation is voluntary. Planning district commissions have been organized and staffed in nineteen districts which encompass 93 percent of the state's population.

PDCs are public bodies supported by regular state appropriations which currently total 750,000 dollars per year. To be eligible for state grants a commission must have employed a professional staff. The state also provides technical assistance to districts.

PDCs engage in areawide intergovernmental planning and coordination of planning efforts at the local level. Their policy making bodies must have a majority of elected officials with at least one from each member jurisdiction.

Virginia has encouraged federal agencies to focus administration of their programs through PDCs. Six PDCs are local development districts. Five are economic development districts.

Combinations of PDCs has been designated as air quality control regions and they are also designated as both metropolitan and non-metropolitan 701 comprehensive planning agencies. They also have responsibility for A-95 review.

Several state agencies have voluntarily realigned administrative districts to coincide with PDC boundaries. In addition, an executive order is being considered which will bring about the realignment of most other state administrative districts to coincide with PDC boundaries.

West Virginia

At present, West Virginia does not have officially established sub-state districts. The state has utilized an eleven region pattern established in 1969 under the Appalachian Redevelopment Act as an ad hoc basis for areawide planning.

Legislation introduced in the 1971 legislature would enable the establishment of a system of multi-purpose, sub-state districts. Under the proposed legislation, delineation would take place within a specific time period from passage. Organizational and functional characteristics of the district organizations are included in the pending bill whch accents achievement of uniformity in federal program administration and coordination of local planning and development activities.

REGION IV

Alabama

Sub-state districting was mandated by Act 1126 of 1969. Executive Order #24 (July 1970) designated eight planning and development districts. Under Act 1126, regional planning and development commissions may be established within the designated districts through the exercise of local initiative. Regional commissions must include at least three contiguous counties and more than one may exist within a district. There are presently nine commissions covering all of six districts.

District boundaries provide a common geographic basis for state planning and programming, uniform alignment of federally initiated sub-state programs, and areawide coordination of local planning. Regional commissions serve as A-95 Clearinghouses where they have sufficient staff capability.

Florida

State action in establishing sub-state districts has been minimal. A 1968 resolution of the Florida State Planning and Budget Commission recommended a set of uniform districts as a guideline for local initiative. Further action has been limited, however, and the official status of the district pattern has become ambiguous due to subsequent govermmental reorganization and a change of administration. Multi-jurisdictional areawide planning is carried out in metropolitan areas by regional planning commissions enabled under Chapter 160, Florida Statutes or by special local act.

Georgia

Sub-state districts are an integral part of Georgia's planning structure. There are presently nineteen such bodies, formed at local initiative under Georgia's General Planning Enabling Act of 1957 (as amended), Georgia Act 1066, of 1970, and Georgia Act 5, of 1971 which relates only to Metropolitan Atlanta.

The nineteen districts, called Area Planning and Development Commissions, form a statewide network. These are supported by a regular state appropriation based on a matching formula which allows up to $65,000 annually to each Planning and Development Commission.

All district commissions are public bodies and the proportion of elected official representation is locally determined. All nineteen Area Planning and Development Commissions are in full operation with professional staffs.

While the focus of Georgia's Area Planning and Development Commissions has been upon developing and coordinating areawide multi-jurisdictional planning, they also serve as a basis for coordination of federally assisted sub-state programs. All nineteen districts have been officially designated as A-95 Clearinghouses, twelve are Economic Development Districts, six serve as local Development Districts for Appalachia. In addition, all nineteen are "701" agencies and are responsible for Law Enforcement Assistance Planning. Several districts serve as Comprehensive Health Planning Areas and the boundaries of several districts are coterminous with those of Community Action Agencies.

While several of Georgia's state agencies are utilizing the district boundaries, the state is currently reviewing all existing sub-state districts to place a greater emphasis on a uniform set of districts for planning and program administration activities at the local, state, and federal levels.

Kentucky

Executive Order 67-233 established fifteen multi-purpose Area Development Districts for Kentucky. At present, twelve districts, are organized, staffed, and operating.

State assistance is provided by state matching of federal planning assistance funds and provision of planning and programming assistance on request. Organizational requirements are administrative and are prerequisities for state assistance. Executive Order 69-653 designated the organized districts as A-95 Clearinghouses.

At present, twelve districts serve as "701" agencies, seven as Economic Development Districts, and five as Local Development Districts. All are utilized as

Comprehensive Health Planning Areas. All state agencies are instructed to recognize the district delineation as the basis for administration of state programs.

Mississippi

Mississippi has a system of ten sub-state planning and development districts, with all eighty-two counties participating. Seven of these districts receive as their primary source of support planning grants from the Economic Development Administration. Three districts are funded by the Appalachian Regional Commission.

The ten districts serve as A–95 Regional Clearinghouses for federal programs, working with the Coordinator of Federal-State Programs, Office of the Governor, as the state clearinghouse and the coordinating state agency for the districts.

Seven of the districts have been designated as Economic Development Districts by the Economic Development Administration, and the three Appalachian Local Development Districts have been authorized for designation as economic development districts.

Matching funds for district administration are provided through tax revenues from the counties under Section 2911.3 and Sections 2890.5–01 through 2890.5–08, Mississippi Code of 1942, Recompiled.

Certain of Mississippi's planning and development districts serve as housing authorities, engage in manpower training, administer programs for the aging, and administer 701 comprehensive planning assistance programs, and all of the districts provide a broad range of other technical assistance and planning services for local governments within their boundaries.

The districts receive no direct state appropriations at this time, but state plans call for legislation establishing a uniform structure for the districts along with regular financial support.

Both state and federal agencies are increasingly relying upon these districts for sub-state planning and development purposes.

North Carolina

Seventeen multi-jurisdictional planning regions were designated by Executive Order #3 in May, 1970. State responsibility for encouraging multi-jurisdictional planning is mandated in Section 143–341(6): North Carolina General Statutes (as amended in 1969).

Some form of organization exists in all but one of the seventeen districts, although they do not in each instance utilize state delineated boundaries exactly. Recently established agencies have organized through local initiative under general state statutes enabling councils of governments or other interlocal cooperative arrangements. There is, therefore, no single predominant organization structure at present. The state encourages structures which are closely linked to local governments. Organizations of city and county officials have encouraged council of governments.

State support is provided through staff and technical assistance, and the fiscal 1972 budget will, if approved, provide a state appropriation to assist regional organizations.

Motion toward alignment of federally initiated sub-state programs is underway. Comprehensive Health Planning Areas approach complete alignment and Law Enforcement Assistance Areas are completely aligned. Economic Development Districts and Local Development Districts are undergoing realignment into the district pattern. Four multi-county regions have been designated as A–95 Regional Cyearinghouses. Three additional regions have been designated as regional clearinghouses on an interim basis. State agencies are adopting the delineation at present. To the extent that can be determined, federal agencies are also conforming to the multi-county alignments.

South Carolina

The official delineation of ten multi-purpose sub-state districts was adopted by executive order in March 1969. Planning and development organizations have been formed in all of the ten districts. These organizations are created at local initiative and can be councils of governments or regional planning commissions. All are public bodies and exist in form and function pursuant to the state's comprehensive planning and zoning Enabling Legislation Act 487 of 1967.

The ten planning and development organizations are provided state staff and technical assistance on a regular basis. State financial support is anticipated on a formula basis in fiscal year 1973. The planning organizations serve as A–95

Clearinghouses. All receive "701" assistance; law enforcement assistance, and outdoor recreation, historical preservation, highway safety, transportation, and water and sewer funds.

Other uses of the official district delineation are areawide health planning and cooperative area manpower planning. One district is a local development district, four are economic development districts, and four are resource conservation and development districts. Two districts have been selected as "pilot" areas by the South Carolina rural development committee. Community action agency use of the official pattern is beginning to emerge.

Seventeen state agencies utilize the official sub-state districts as geographic basis for the planning and delivery of state programs.

Tennessee

Executive Order No. 17 of 1968 designated eight planning and development regions for Tennessee. A subsequent amendment added a ninth. The districts are multi-purpose, but focus upon planning for economic development.

Six of the districts, covering sixty-eight percent of the population, are organized under the provisions of Chapter 13–1401 through 13–1411, Tennessee Code Annotated. State support is offered through a regular appropriation (matching funds to a maximum of 25,000 dollars), and provision of coordination with state agencies.

Districts are required to be public bodies and have an approved work program in order to receive state support.

Federally initiated sub-state programs are largely in alignment with the district delineation, and numerous state agencies utilize the districts as geographic bases for functional planning and delivery of state programs.

REGION V

Illinois

As of December 31, 1970, Illinois had not carried out a substate districting process. In early 1971, however, the state undertook an effort to establish a two-tiered system of districts focused initially, upon creation of uniform areas for administration of state programs. The proposal includes a first tier of large regions for state purposes and, ultimately, a second tier of smaller sub-regions for regional planning and administration of federal sub-state programs.

Formal adoption of the system is expected to have been accomplished by executive order by April 15, 1971.

Indiana

Executive Order 18–68 designated fourteen multi-county planning and development regions. The order urges recognition and adoption of the regions by state agencies and establishes the Indiana Division of Planning as the administrating agency. Seven state agencies currently utilize the boundaries.

At present, none of the state designated districts have organized, and federal sub-state program administration is only partially in conformance with regional boundaries. A proposal for a statewide network of regional planning agencies is currently under consideration by the Indiana Legislature. A number of councils of government are in existence under general state statutes for interlocal cooperation.

Michigan

Thirteen state planning and development regions covering the entire state are officially designated by executive directive. The directive requires conformance where possible by state agencies in functional planning and delivery of governmental services. While Michigan's emphasis to date has been upon utilization of regional boundaries for state administration, delineation was designed to support the evolution of a uniform system of multi-purpose, sub-state units.

Michigan Statutes enable establishment of multi-county regional planning commissions and economic development commissions upon local initiative. Sub-state organizations presently include two councils of governments, two metropolitan area regional planning commissions and six organizations which combine the characteristics of regional planning commissions and economic development commissions under Michigan's Enabling Statutes.

The state does not yet provide financial support to sub-state regions and a uniform comprehensive planning capability does not yet exist within the regional boundaries.

Administration of federally initiated sub-state programs does not generally conform to the state regional delineation pattern.

Minnesota

State action toward establishment of sub-state districts has progressed rapidly in Minnesota since 1969. Under Chapter 1122, 1969 Minnesota Laws, the Governor in his role as State Planning Officer, is empowered to designate sub-state "development regions."

Executive Order #37 (4/3/69) established a system of eleven such regions to be utilized for multi-jurisdictional regional planning, and for administration of federally initiated sub-state programs. Executive Order #60 (6/70) and a subsequent amendment (12/70) realigned the original pattern slightly. Under the amendment to Executive Order #60, one region was divided into two. The resulting twelve district pattern will be adopted in final form upon petition for Regional Development Commissions by the newly created regions.

Under Chapter 1122, regional organizations are public bodies and are supported by the state through ad hoc appropriations and provision of technical and staff assistance. One Regional Development Commission has organized under the chapter provisions and a second is expected to do so in 1971.

One additional region is organized under the legislation establishing the Twin Cities Metropolitan Council and is unique in its relationship to state and local governments.

Compliance by federal agencies administering sub-state programs is expected to follow finalization of the districting pattern. Districts, once organized and carrying out regional planning, will be designated as A–95 Clearinghouses.

Ohio

Ohio has not yet undertaken official state designation of a uniform set of sub-state districts. The existing structure is based upon ad hoc arrangement of councils of government and regional planning commissions. These agencies carry out areawide planning and, in metropolitan areas, serve as A–95 Clearinghouses.

State support to sub-state organizations is currently limited to provisions of "regional advisors" and technical assistance.

The state is currently studying a proposal for the establishment of a two-tiered system of multi-purpose districts and enabling legislation (House Bill #26) was introduced in the 1971 legislature.

Wisconsin

Executive Order #22 (August 1970) designated a set of eight substate districts in Wisconsin. The districts are multi-purpose; serving as geographic units for planning and delivery of state programs, coordination of local planning efforts, and uniform alignment of federally initiated sub-state programs.

Eight regional planning commissions, enabled under Section 66.945 existed prior to official district delineation and are encouraged to conform over time to the state initiated boundaries. At present, the jurisdictions of three commissions are in or near complete alignment.

Federal program conformance is presently incomplete, but motion toward alignment is underway. Districts will be designated A–95 Clearinghouses as organization progresses.

Eight major state agencies (comprising the governor's working cabinet) are required by Executive Order #22 to conform to the district pattern.

REGION VI

Iowa

Iowa established a set of sixteen sub-state districts by Executive Order # 11 of 1967. The district concept has not been actively utilized, however, until recently. There are no officially recognized district organizations at present, but Iowa is undertaking a program to invigorate its district system.

District organization will be in accordance with Iowa's Joint Exercise of Power Statutes and state support will be in the form of staff and technical assistance. State planning officials are exploring the possibility of state funding to a model district, and are seeking packaging of federal planning funds to support staff for district organizations.

Kansas

A set of eleven multi-purpose sub-state districts were designated in February 1971 by executive order. District organizations will be regional planning commissions enabled by Kansas Statutes Annotated, 1969 Supp. Ch. 12-716.

State support is provided in the form of staff and technical assistance upon request. At present, two districts have organized and have some staff capacity. District commissions will be designated as A-95 Clearinghouses as sufficient staff capacity is reached.

Missouri

Missouri established twenty sub-state districts by executive order in 1967. The order, issued under authority of Ch. 251, CRSMo, 1967 Supp., recognizes Missouri's twenty multi-purpose sub-state districts as necessary to effective coordination of local planning efforts, and encourages state agencies to utilize them in planning and delivery of state grant programs.

All twenty districts are organized and staffed at present. State support is offered by provision of staff and technical assistance. District organizations are called Regional Planning Commissions, but are composed of elected officials. All are public bodies.

Federally initiated sub-state programs are in satisfactory conformance with the district patterns, and all district commissions (6 metropolitan and 14 nonmetropolitan) serve as A-95 Clearinghouses.

Nebraska

Nebraska utilizes a set of twenty-six multi-purpose sub-state districts. These were established by gubernatorial action on authority of Legislative Bill 536 (1969). District organizations are formed under Nebraska's Interlocal Cooperation Act (Ch's 22-2201 through 23-2207 Neb. Rev. Stat.). All are public bodies.

At present, four districts have organized. Three are metropolitan and one nonmetropolitan. State support can be offered by a regular formula appropriation, state matching of certain federal program funds, and provision of technical and staff assistance on a regular basis.

Compliance with the district pattern by state and federal agencies is excellent. Both Comprehensive Health Planning Areas and Law Enforcement Assistance Areas are in complete conformance.

The four organized districts have been designated to serve as A-95 Clearinghouses. The remaining districts will be designated upon organization and achievement of a sufficient planning capability.

REGION VII

Arkansas

Arkansas utilizes a system of eight sub-state districts. Six are metropolitan areawide Regional Planning Commissions or councils of governments enabled under Act 26, 1955. All eight are Economic Development Districts enabled and designated by Act 118, 1969. The district system was established for coordination of local planning and development activities, and as a basis for uniform alignment of federally initiated sub-state programs.

State support for the eight Economic Development Districts is by regular appropriation and provision of technical and staff assistance upon request.

The six metropolitan areawide agencies are organized in accordance with HUD requirements, while the eight Economic Development Districts must organize in accordance with Act 118 in order to receive state support. The act requires that the EDDs be public bodies, composed of a majority of elected officials. Professional staff is a condition of assistance.

All eight districts have been designated as A-95 Clearinghouses and receive funding as "701" Comprehensive Planning Agencies. Seven are Comprehensive Health Planning Areas and the boundaries of Arkansas' two Resource Conservation and Development Districts are coterminous with district boundaries.

Louisiana

Eight sub-state districts were established by administrative action in 1970 under authority of Act 288 of 1968. These districts provide a geographic basis for statewide planning efforts, A-95 review and comment procedures, and uniform alignment of federally initiated sub-state programs.

Development of district organizations is underway. The districts were formed in parallel with existing Economic Development Districts and an EDD staff exists within each. Metropolitan areas within the districts have established regional planning commissions within their boundaries, and each district has a district A-95 Clearinghouse board composed of state and local elected officials and representatives of several public bodies.

Federally initiated sub-state programs are reported in satisfactory conformance with the district boundaries. State support to the districts is provided in the form of staff and technical assistance upon request.

New Mexico

A system of six sub-state districts was adopted by Executive Order #1 in January 1969. District organizations are formed at local initiative under New Mexico's Joint Exercise of Powers Statute (Art. 22, Sec. 4-22-1 through Sec. 4-22-7), or under a specific statute enabling establishment of a regional planning commission. Two districts, one metropolitan council of governments and one Economic Development District, have formed.

State support is provided in the form of staff and technical assistance, but alternate proposals are before the 1971 legislature. One proposal would provide a regular appropriation to district organizations, and another would allow district boards to exercise taxing power.

Federally initiated sub-state programs generally conform to the district delineation. A-95 review and comment is carried out by the two existing district organizations.

State agencies are directed to utilize the delineated pattern in planning and delivery of state programs.

Oklahoma

Oklahoma has utilized a system of eleven sub-state districts since June, 1968. Senate Bill 290 of 1969 established legislative authority for state action toward further organizing the system. The eleven districts were formed on the basis of existing Economic Development Districts and eight are organized and functioning.

In the absence of specific statutory requirements for district organization, Oklahoma's district organizations are formed in accordance with Economic Development District guidelines. State support is offered through matching of federal planning assistance funds and by provision of staff and technical assistance.

On January 15, 1971, administrative action was taken under S.B. 290 to realign the districts. The current system grants to seven counties the option of shifting their membership between adjacent state districts for particular federal programs.

Federally initiated sub-state programs are moving satisfactorily toward conformance with the delineation as are Oklahoma's state agencies. The districts are seen as multi-purpose and are intended to provide a basis for coordination of local planning, uniform alignment of federally initiated sub-state programs, and administration of state programs.

Texas

Texas' system of twenty-one sub-state planning regions is among the most highly developed in the nation. Regional boundary delineation was accomplished by Official Memorandum (executive order) in December 1968 to provide standardization of boundaries for local, state, and federal sub-state activities. District organizations, called Regional Councils, are established at local initiative under Article 1011m V.A.C.S., as amended, to carry out planning and development activities within the standardized boundaries.

There are twenty-three Regional Councils within the twenty-one districts (three districts have two councils serving separate geographic areas, and one district is being organized). Regional Councils must have at least a majority of elected officials as members in order to receive state assistance. All are public bodies.

Assistance is by regular, formula appropriation; provision of certain state functional planning funds, and staff and technical support when requested. Professional staff is an additional requirement for state assistance.

All Regional Councils serve as A-95 Clearinghouses, Law Enforcement Assistance Areas, and metropolitan or non-metropolitan "701" Comprehensive Planning Agencies. Six Economic Development Districts are coterminous as are four Comprehensive Health Planning Areas.

All major state agencies utilize the Regional Councils in the development of their plans and programs. Eight utilize the district boundaries or combinations in delivery of services.

REGION VIII

Colorado

Colorado has not designated sub-state districts by legislative or gubernatorial action. A set of twelve districts has been established, however, by the Colorado State Planning Office. These districts are utilized for coordination of local planning. Two of the twelve have established areawide organizations under statutes enabling multi-jurisdictional planning.

State support is in the form of staff planning advisory service and matching of federal planning funds.

Montana

Montana has not yet adopted sub-state districts. A proposed delineation pattern would establish a set of twelve multi-county regions for use by all state agencies.

North Dakota

Executive Order #49, issued in September 1969, established eight sub-state districts for planning and administration of state services. Multi-jurisdictional organization within the districts is guided by North Dakota general statutes enabling interlocal cooperation (Chapter 11–35, North Century Code). At present, no district has a staffed organization covering all or most of its area. Insofar as sub-state districts are focused upon delivery of state government services, however, organization has not become an issue in North Dakota.

No regional A–95 Clearinghouses have been designated, and boundary conformance by federally initiated sub-state programs is varied.

The North Dakota Departments of Health and Public Welfare are now in compliance with the delineation pattern.

South Dakota

South Dakota established a network of six sub-state districts by executive order in December, 1970. The districts form the geographic basis of multi-purpose organizations for coordination of local planning, uniform alignment of federally initiated sub-state programs, and administration of state agency activities.

At present, one district has an organization which covers most of its territory. The remaining organizations will be formed at local initiative under general statutes enabling multi-jurisdictional planning.

State support to the districts is offered in the form of staff and technical assistance.

Federally initiated sub-state programs are in a high degree of conformance with South Dakota's district pattern. At present, CAMPS, LEAA, CHP and CAA programs are in complete alignment, and others are moving toward conformance.

All state agencies are required to utilize the pattern under the executive order and South Dakota reports excellent progress at all levels.

Utah

Sub-state districts were initially established by executive order in May 1970. The order established eight districts and encouraged formation of multi-county associations of governments composed of elected officials, and organized under Utah's Interlocal Cooperation Act of 1965. Legislation passed in the 1971 session gave legislative recognition to the sub-state pattern. Eight districts are established as multi-purpose bodies for coordination of local planning, uniform alignment of federally initiated sub-state programs, and planning and administration of state agency activities.

At present, state support is in the form of staff and technical assistance. A regular state appropriation will become effective on July 1, 1971. Regular assistance is conditioned upon district organizational conformance with guidelines prepared by the Utah Department of Community Affairs.

Federal programs are moving toward compliance with Utah's districts. Two serve as non-metropolitan regional clearinghouses under A–95, and the remainder will be designated when sufficient staff capability is reached. Both Utah's two Economic Development Districts and two Comprehensive Health Planning Areas conform and all eight sub-state districts serve as Law Enforcement Assistance Areas. Utah has three "701" districts, two metropolitan and one non-metropolitan. All are in conformance with one of the metropolitan "701" districts covering two state districts.

With the exception of Education and Natural Resources, planning and delivery of services by state agencies will be in accordance with the district alignment by the end of 1971.

Wyoming

Wyoming does not utilize sub-state districts and has no immediate plans to do so.

REGION IX

Arizona

Executive Order 70–2 established a system of six sub-state districts in Arizona. Two are metropolitan and the remaining four non-metropolitan. The districts are multi-purpose and are organized under Arizona Statutes Enabling Joint Exercise of Powers. State officials indicate that organization of all districts will be complete by July 1, 1971. State agencies are moving toward adoption of the district delineation at present.

California

California has established nine sub-state districts for coordination of local planning and administration of federally initiated substate programs. In the absence of specific legislation enabling substate organizations, disrict bodies are established under California's Joint Exercise of Powers Statute and are voluntary in nature. Five of California's nine districts are presently organized. State support is offered in the form of matching funds for some federal programs.

Hawaii

Hawaii's system of government has precluded the need for substate districts. Each of Hawaii's four counties has a planning department and each of the Neighbor Island Counties (Hawaii, Maui, and Kauai) has an economic development agency.

The Department of Planning and Economic Development serves as the coordinator of all planning activities and is the state A–95 Clearinghouse. The Honolulu City Planning Department is the metropolitan clearinghouse for the County of Honolulu, the only metropolitan area in the state.

Nevada

Nevada does not utilize a statewide set of sub-state districts at present. There are currently four multi-jurisdictional planning agencies in existence: two metropolitan areawide bodies in the Reno and Las Vegas SMSAs, one multi-state agency (Lake Tahoe Regional Planning Agency—California/Nevada), and one multicounty economic development authority established under special enabling legislation. All were formed at local initiative and state support is limited to ad hoc matching of federal funds.

A sub-state districting proposal is being prepared for submission to the Governor early in 1971. The proposal would create a network of multi-purpose agencies throughout the state. Companion legislation would encourage formation of regional planning bodies under Nevada's Interlocal Cooperation Act, and would establish a program of state financial support to agencies so established.

REGION X

Alaska

Alaska has not adopted a system of sub-state districts.

Idaho

Idaho does not presently have a system of sub-state districts. A proposal currently under consideration would create a set of six multi-purpose districts by the end of 1971. Adoption would be by executive order.

Oregon

Oregon's system of sub-state districts is highly developed and provides a uniform basis for coordination of local planning, alignment of federally initiated sub-state programs, and planning and administration of state programs. The system was adopted by Executive Order No. 68–11 in 1968 (subsequently modified by Executive Order 01–170–3 in February, 1970). There are fourteen multipurpose districts in the Oregon system and thirteen have organized District

Councils of Governments under Sections 190.003 through 190.110, Oregon Revised Statutes.

Oregon's system of District Councils provides a single focal point for multi-jurisdictional planning within each of the designated districts. They serve, as well, as the A–95 Regional Clearinghouses.

State support to the District Councils is by regular appropriation as well as through provision of technical and staff assistance. Councils are public bodies and must be composed of at least two-thirds elected officials (these must represent at least three-quarters of the aggregate population within the district).

Federally initiated sub-state programs are generally aligned with the district pattern and all state agencies are directed to utilize the boundaries.

Oregon's system includes flexibility in the coordination of local planning by allowing the formation of sub-district councils of governments. Where sub-groupings of local governments within a delineated district experience specific commonality in problems or interests, they may form a council including less than the total jurisdictions in the district. Membership in a sub-council is maintained in addition to the district-wide council membership.

Washington

Thirteen sub-state districts were established by executive order in August 1969. Washington's district delineation was established to provide a common basis for planning and delivery of services by state agencies.

The establishment of areawide organization for coordination of local planning efforts has been encouraged by the state, but is dependent upon exercise of local initiative. Organization of an areawide planning body may be carried out in accordance with state statutes enabling Regional Planning Commission and councils of governments. Six such organizations have been established and are supported by technical assistance from the state.

Federally initiated sub-state programs are generally in satisfactory compliance and district organizations are designated A–95 Clearinghouses as they reach sufficient staff capacity.

Senator HUMPHREY. The subcommittee will adjourn until 9 o'clock tomorrow.

(Whereupon, at 4:20 p.m. the subcommittee adjourned, to reconvene at 9 a.m. Friday, September 24, 1971.)

(Additional information filed for the record is as follows:)

CONCERTED SERVICES IN TRAINING AND EDUCATION

PROJECTS BEING CONDUCTED IN THIRTEEN STATES THROUGH COOPERATION OF FEDERAL, STATE, AND LOCAL LEADERS

These include programs which illustrate the many activities being conducted which aid in education, training, and job development, and do not mean to imply that local coordinators initiated all of them. They do tell of many activities that are underway in different communities

(Progress Report, September 30, 1971)

SPONSORED BY AN INTERDEPARTMENTAL FEDERAL TASK FORCE

JOHN S. MCCAULEY, *Cochairman, Department of Labor.*
SHERRILL D. MCMILLEN, *Cochairman, Department of Health, Education, and Welfare.*
C. B. GILLILAND, *Executive Secretary, Department of Agriculture.*

SUMMARY CSTE QUARTERLY REPORT—JULY–SEPTEMBER 1971

Activity in education and occupational training leading to job development and placement continued with much success during the July–September quarter. Two new CSTE areas were activated—Garrett County, Maryland, and Skowhegan Area, Maine. Local CSTE Coordinators or Directors have continued to work closely with community leaders and local program administrators in follow-through activities on training and job development. A few examples of these activities from the different areas are briefly described as follows:

WEST CENTRAL MINNESOTA

CSTE work in Hubbard County (added to area last quarter) has started. The needs for EDA assistance are being studied. Plans for a veteran's agricultural class are underway. Early discussion of the manpower survey and the new Emergency Employment Act are in progress. Plans for the manpower survey in Hubbard County are underway. Meetings with the Park Rapids Chamber of Commerce and the County Board of Commissioners are set for October. Assistance is being given to the communities of Perham, Wadena, and Staples in obtaining information and funds for community facilities buildings for library services, Head Start, social services, and training purposes. Several meetings were held during the quarter with the Perham committee. Many contacts were made during the quarter with county, village, and school officials in planning for use of Emergency Employment Act monies allocated for the area. By county the distribution was as follows: Todd—$118,800; Wadena—$46,800; Otter Tail—$96,000; and Hubbard—$123,900.

EASTERN ARKANSAS

Discussions were held with public school representatives in Marianna and Augusta pertaining to submitting applications for GED programs. Applications were submitted, and programs in both ABE and GED will start in October. Neither of the two towns has had GED before. Work was done in connection with the Coordinated Careers for Vocational Education High School Students in Forrest City. A program for training firemen in Wynne was set up and will start in October through Crowley's Ridge Vocational-Technical School. Justification was written on an MDTA training program in connection with local industry. The program will provide enrollees with one entry level and three pre-entry level employment fields. A program to furnish First Aid training to local industry was worked out via Crowley's Ridge Vocational-Technical School. 100 NYC slots for the In-School Program were allocated to the local CAA. CSTE has assisted in placing the students in hospitals and local government offices. An SBA Clinic was held in Augusta on Sepember 14, 16, 21, and 23 for Woodruff County residents.

BATESVILLE, AREA, ARK.

CSTE is working with the Alcoholic Recovery Center, Inc. This is a 24-hour treatment facility with a preventive education program. The center is located in Batesville, but serves a multi-county area. The Community School for Trainable Children of Independence County offers education and training with emphasis on personal and social skills and self-help skills to mentally retarded children aged 6 to 12. The CSTE Coordinator has been active in the development of applications and funding of a neighborhood facility at Cushman. The physical facility is about complete. The CSTE office was instrumental in obtaining the enrollment of 5 people in the regular program at Arkansas College. Loans and grants made the enrollments possible. Two more people are scheduled to enroll in the spring semester. Eighty-one people are enrolled in four continuing education classes at Arkansas College and twenty-five are enrolled in the College's Cherokee Village program in Sharp County. CSTE has been and is continuing to be very active in this field. Programs are now being planned for the spring semester. Foothills Vocational-Technical School has pledged their cooperation and assistance. CSTE assisted in planning and applying for four trade extension courses. Trade extension classes in welding and electricity and house wiring were held during the quarter. Mountain View Folk Cultural Complex plan will include at least 22 craft programs, an annual Folk Festival, an Education Center, an outdoor amphitheater with a capacity of 5,000, and a skill training center.

SANDOVAL COUNTY, N. MEX.

BIA submitted a proposal to EDA seeking funds to develop an Indian Industrial Park near Bernalillo. Concerted Services supported the project by obtaining letters of endorsement from the County Commissioners and businessmen. The new Jemez Electric Co-op was approved for REA funds to render electrical services to Navajo families. Follow-up was made to determine number of families who signed up for this service. Coordinated meetings with the Indian CAP to come up with a plumbing and electrician training program for hiring of trainees in the six Indian pueblos. The governors of each pueblo will confer further to come up with a class. A new Home Extension Agent has been named for Sandoval County. A permanent assignment of an agent is a result of the efforts of a voluntary VISTA (Home Economists) obtained through CSTE and Washington OEO several years ago. To date, nine extension clubs have been organized in the county. Extension Service has been active in cooperating with the Nutrition Committee of Sandoval County on nutritional aids for families. The Adult Basic Education teacher asked to use the CSTE office once a week to hold her adult class of 17 enrollees until she can locate suitable quarters.

SAN MIGUEL COUNTY, N. MEX.

Classes were conducted at the Luna Area School for the local Turn-Key III unit residents for the Home Management courses. There are 1 to 15 students in some of the classes being offered. With these students and the regular students attending day classes and night offerings, there are approximately 294 enrollees. There are approximately 36 individual CEP referrals taking part in the following courses which are being offered to individual referrals: Welding, Drafting, Building Trades, Clerk-Steno, Electronics, Auto Mechanics, and Nursing. Working with Scanlon and Associates, Inc., on recommendations they have submitted to our office on jobs that would be opened by the Elk Mountain Road Project if construction is approved. These people would be trained prior to being hired by the contractors. Coordinator is assisting and cooperating with the White House Conference on Aging that has formed various committees. The Emergency Employment Act (EEA) had made provisions for 16 veterans to be employed in San Miguel County through the Employment Security Commission. The CSTE office is communicating with local Employment Security Commission in recommending Viet Nam and Korean veterans who could be registered on the waiting list for the Emergency Employment Act.

M'CURTAIN COUNTY, OKLA.

Comprehensive Health Planning for the 7-county Kiamichi Economic Development District was made possible by a recent grant from the Public Health Service of the Department of Health, Education, and Welfare. Mr. Harold Watson, Director of Health Planning for KEDDO is busy organizing a health council composed of representatives from the 7-county area to identify health needs for the area. The Oklahoma State Department of Vocational and Technical Education, Special Schools Division, in cooperation with the Oklahoma State Employment Service, plans to conduct pre-employment training for persons interested in working at the new plywood mill at Wright City. This mill will use both male and female workers. Trainees will receive 3 weeks of schooling, 3 hours per night, 4 nights per week. Tourists and other travelers in McCurtain County spent $2,789,000 in 1970. This was an increase of 127 percent over the 1969 calendar year. Most of the tourists apparently were attracted to the area by the new Broken Bow Reservoir. Beavers Bend State Park attracted 440,300 campers and trailers. The attendance at the park was listed as 2,250,100 over the past year. The Choctaw Bilingual Education Program has been approved and an allotment of $128,000 to carry out the program has been made by the U.S. Office of Education. A nonmedical health officer has been appointed to head the multicounty Health Department of McCurtain, Latimer, and Haskell Counties. He will have administrative responsibilities, thereby releasing medical directors to spend more time in clinical procedures. This is a new concept amed at giving medical directors more time to spend with patients and releasing them from budget and personnel problems.

CHEROKEE COUNTY, OKLA.

The Cherokee Hills Skill Center has started and has 50 enrollees. The courses tentatively scheduled are: (1) Bulldozing, (2) health occupations, (3) mechanics, (4) clerical skills, (5) water and sewage upgrading, and (6) welding. There will be a satellite school in the RC&D 7-county area. The Skill Center is located south of Tahlequah in the Cherokee Tribal Building where the facilities are much improved from our last MDTA center. A class of 50 persons is taking part in Adult Education at the Tahlequah High School. A total of 113 youngsters are enrolled in 3 centers in Cherokee County. The centers are located in Briggs, Hulbert, and Sequoyah Training Schools. Thirteen adults enrolled in Head Start Teachers Training. A total of 4 persons at the Mid-West Nursery are participating in nursery work. One person is receiving training at the Liberty State Bank. A new exemplary program for the disadvantaged and handicapped has started in Cherokee County. The In-School phase of the program will provide special projects for the seventh, eighth, and ninth grade students. Hulbert High School will be the first school in Cherokee County. The program is federally financed and is administered by the State Board of Vocational-Technical Education through local school boards. This program will be attempting to reach slow learners, potential dropouts, and lower IQ. Boys will be taught general mechanics, small engine repair, small appliance repair, welding, rough carpentry, plumbing, electrical wiring, roofing, painting, and masonry. Girls will be taught food preparation, sewing, and nursing care. Each group will range from 16–24 students. The program will provide funds to employ one vocational teacher.

PARKERSBURG AREA, WEST VIRGINIA

The CSTE office is serving in an advisory capacity to the Lay Advisory Committee for a Vocational School for the counties of Pleasants-Tyler and Ritchie. A Service-Business-Industrial Survey was conducted by CSTE to provide data on skill needs for the proposal and we have provided various other information necessary for the proposal. Several students in Pleasants County were used to conduct the Survey, with a contribution of $250 from West Central Community Action for postage. Since Vocational Education has been established as a problem area for the Wood County MRP the Service-Business-Industrial Survey was also conducted in Wood County in conjunction with the Pleasants-Tyler-Ritchie County survey. The results of this survey will be used by the Vocational Education Subcommittee to analyze and begin types of post-secondary courses most relevant to this area. The Smaller Communities Program is tentatively scheduled to enter Tyler County in February 1972, after survey has been completed in Webster County. An underprivileged youth camp was conducted for 110 youths in Calhoun County.

SOUTHWEST KENTUCKY

Lyon County became eligible for $67,300 under Sections 5 and 6 of the Emergency Employment Act during this quarter. Coordinator met with the County Judge, City Mayors, fiscal court members, and city councilmen to determine how these funds could best be used in the County. The final decision was to employ a total of 13 applicants. Three Adult Vocational Education Extension classes were established during the quarter in the CSTE area. They were: Beginning airconditioning and electricity in Livingston County with 16 enrolled, Beginning shorthand in Lyon County with 25 enrolled, and Beginning typing in Lyon County with 21 enrolled. Other classes are presently being considered in Trigg County with the intention of beginning them in early November. Classes being considered are Bookkeeping and Advanced Typing. Investigations to locate funds to begin a workshop for the handicapped group in Trigg County have been made. Contacts have also been made with the Vocational Rehabilitation Office in Bowling Green and with the Director of the Pennyroyal Industries, Princeton, concerning the activation of this program, but nothing concrete has been established to date.

DE KALB AREA, ILLINOIS

CSTE has been working closely with the DeKalb County Planning Office to develop plans which will meet the necessary requirements for the county to receive certification as an Area Planning Organization (A.P.O.). As of October 1, 1971, HUD will no longer release funds to counties or municipalities for sewer and water facilities or for open-space unless the certification requirements have been met. A meeting with HUD officials and local county officials has been called for early October to proceed with the necessary steps. CSTE Director met with 20 area Vocational Agriculture instructors and 40 area officers of the Future Farmers of America (FFA) to discuss with them the new Building Our American Communities (BOAC) program. The program is sponsored jointly by the National FFA, the Farmers Home Administration, and Lilly Endowment, Inc. The purpose of the BOAC program is to encourage and assist tomorrow's leaders (FFA members) to become more active in the development of their communities.

I will work with these high school vocational agriculture departments as they become involved in BOAC. The Kishwaukee Area Manpower Inventory has been completed. Final return-mail questionnaires, the business and industry interviews, and the personal interviews are completed in August. The data have been keypunched now and it is hoped that a final draft of the report will go to the printers soon. CSTE office worked with the DeKalb County Extension Office to plan a county-wide marijuana control program. The State of Illinois Department of Agriculture and the DeKalb County Board of Supervisors funded the program. We are currently looking into several HEW (Public Health Service-National Institute of Health) programs dealing with special project grants; grants for training institutes, and grants for advanced training, all of which are related to the newly emerging allied health professions. We feel that there is a great deal of potential for allied health professions with NIU and Kishwaukee College so close and so interested with the Kishwaukee Community Health Services Center. The DeKalb County Special Education Association has worked out a lease with the Catholic Sisters at Notre Dame High School to rent their 4-year old facilities for the next 2 years. The Sisters have closed the Catholic school because of the costs, but they did agree to rent them to the special education group. The facilities will allow for the first time the bringing together of all of the TMH (Trainable Mentally Handicapped) children in the County. The facilities are excellent, and new innovative programs are being planned. It is a real breakthrough for this segment of our disadvantaged youth.

ROUNDUP AREA, MONTANA

The Musselshell County Small Community Survey was designed to acquire more extensive information about manpower characteristics (training needs, employment, skills, etc.), education, the elderly, housing (standard and substandard), and additional information concerning the physical and human resources in the community. Copies of this survey were distributed the first week of September. In any attempt to induce economic development into a community, a thorough knowledge of the community's resources, physical and human, is necessary. Without a foundation of this basic knowledge, no constructive action can be successfully initiated. It does little good to bring numerable job opportunities into the community if there is a housing shortage and nowhere to put the new people. It does little good to get a low-income housing project, when those people who live in substandard houses would never move out because they were "home." It makes little sense to set up a job training program when one has no idea as to how many people would be interested in enrolling in them. Thus, in order to bring development into this community in an orderly manner, this survey and the housing study were conducted to expand upon existing resource knowledge and to learn more about the people of the community. The bulk of the information obtained for this report came from data collected from the Musselshell County Survey. Questionnaires were sent to 1,173 heads of families and a return of 431, or 37 percent, was received. Data were broken down into relationships involving the main project areas of Training, Education, Employment, Housing, Income, and Transportation. Under the Emergency Employment Act, this Concerted Services office has worked closely with the Employment Security Commission, Billings, to establish 7 city and county slots for employment of local people. Meetings were arranged with county commissioners, city council, and mayor to agree on slots and applicants. Applicants were approved and the slots have been filled. In addition, as a result of these interviews, some other employment possibilities were introduced. In its customary expeditious fashion, the Employment Security Commission also submitted a request on our behalf to the State for 4 additional slots for Master Planning of an 8-county area.

SOUTH GEORGIA

A total of 19 students enrolled in the Secretarial course, with 13 students completing the course. This course was funded through Waycross-Ware Tech and was taught by a retired high school teacher. Classes for sewing machine operators are being taught at Oxford Plant in Alma. Waycross-Ware Tech is sponsoring the training program. This is a continuous program with new classes being taught every two weeks. H & H Sportswear opened a new plant in Willacoochee in an old theater building and has expanded to 40 employees in 45 days.

Coordinator is working with Industrial Coordinator of Waycross-Ware Tech to set up training program. Registered forester from Slash Pine Area Planning and Development Commission appointed a committee to work with appropriate agencies and private industry to reforest cut-over timberlands of small farmers. Coordinator is on Committee. Coordinator met with citizens and Community Action Committee in Pearson to find a solution to ambulance esrvice and the possibility of securing a doctor for Atkinson County. Also discussed health personnel that was assigned to rural areas as of October 1, 1971.

RED RIVER COUNTY, TEX.

CSTE sponsored a Community Education meeting for superintendents and other administrative personnel of the different school districts throughout the County. Also present were persons interested in the educational process within the area. The Director of the Community Education Center at Texas A & M University presented the program. A great amount of enthusiasm was generated from this presentation. A committee has been formed to survey the possibility of initiating such an approach or process in the Clarksville school system. CSTE Executive Committee and the County Manpower Survey Committee finalized plans to start the manpower survey the latter part of October. The survey will be conducted by County volunteers. CSTE will act as the coordinating agent for the County, with the Mayors, Chambers of Commerce, and civic clubs coordinating the survey in their respective communities. The County Extension Agents will assist in the rural areas through the different organizations with which they are associated. When the survey has been completed, the Texas Employment Commission will compile and publish the results.

NEBRASKA (BUTLER, SALINE, AND SEWARD COUNTIES)

CSTE Coordinator hosted a meeting held at Educational Service Unit #6 in Milford. In attendance were the School Superintendents of the area to hear a presentation by State of Nebraska Adult Basic Education Administrator. The Administrator reported that, due to lack of staff and time, he could not approve any new applications for ABE, but would approve expansions of existing projects to include those who were interested under the existing program. Representatives from areas with existing programs agreed to talk with interested schools. Coordinator is still working with the Seward Industrial Development corporation, Jones National Bank, Cattle National Bank, Small Business Administration, and the Business Development Corporation of Nebraska in putting together a package attractive enough to entice a Kansas City based concern to the Seward area. Largely due to the efforts of this office, the Seward Housing Authority resubmitted its application for 75 units of low-income elderly housing to the HUD Area Office in Omaha. Coordinator helped the Authority interpret and fill out the forms, which had been returned for up-dating and re-evaluation. Coordinator furnished information to the Chairman of the Community Improvement Program for Seward. The needed information concerned availability of labor and representative wages from the Seward area, which we were readily able to furnish.

SKOWHEGAN AREA, MAINE

Met with town manager for Skowhegan and discussed progress on Emergency Employemnt Act proposals. Did some research on Title VI of the EEA to see how this section of the bill would apply to our CSTE area. Met with local Assistant Superintendent of Schools to discuss pending Title III proposal. Visited Administrator of Redington-Fairview Hospital and discussed what types of training might apply to the new employees he expects to hire with the completion of the new wing of the hospital in the summer of 1972. After identifying potential training areas, talked with MDTA Coordinator in Augusta and director of the local MESC. Discussed with the local school district's adult education people and the MESC the possibility of tuition-free adult education classes for low-income people in the area. Faced with two problems here: (1) finding funds to pay the tuition for low-income people wishing to participate and (2) finding some way to communicate to the low-income people that these courses are available. Initial meeting with the local agricultural extension agents. Spent some time with them discussing CSTE, its mission in the area, and the programs. Was invited to attend the first meeting of the Rural Development Committee to be held October 20.

GARRETT COUNTY, MD.

One meeting of the CAMPS Committee was held to explain the new committee makeup. The feeling was expressed that there will probably be less local involvement under the new structure. Coordinator has been invited to attend the next regional CAMPS meeting. Coordinator made many contacts with local Community Action Committee. This group is very active with Head Start, Operation Mainstream, Community and Head Start Aides, Emergency Food, Housing, and is making efforts to establish a Community Coordinated Child Care project in the County. A rather lengthy meeting was held with Executive Director of the Garrett County Development Corporation. An interim zoning law has been set up for the Deep Creek Lake area to prevent possible pollution. County-wide zoning is being planned. Master plans for sewerage disposal have been made and sources of financing are being investigated. It is hoped that construction of facilities for sewerage disposal in this most important part of the area can begin next year. The Development Corporation will be conducting a mill survey of the County within the next month and the Coordinator has been invited to submit questions to be included in the questionnaire. The results of the survey will be tabulated and analyzed by the Urban Research and Development Corporation of Bethlehem, Pennsylvania. The same corporation will also conduct an actual visual inspection of every building in the County and will also conduct a land usage survey. In view of the aims of the CSTE program, the Coordinator has been asked to work closely with the Garrett County Development Corporation.

SUMMARY OF WORK IN OTHER CSTE-TYPE PROJECTS

SOUTHEAST NEBRASKA COMMUNITY ACTION COUNCIL, INC.

Winett Project—Infants wear manufacturing. The construction of the building is making good progress. Date of completion December 1. Will start referral of 40 low-income workers prior to December. Under the Emergency Employment Act, worked closely with Employment office along with State Agency. Established 5 slots for employment in two local communities, Humboldt and Pawnee City. Applications have been submitted for approval. Also attended the monthly CAMPS meeting in which there is a new overall structure—Manpower Area Planning Council (MAPC). SENCA was one of the two agencies in Nebraska selected for Training and Technical Assistance from the Boise Cascade Corporation in the area of Economic Development. This is 25 man-days, starting September 71 to January 1, 1972, of service. Spent two days in Kansas City in a workshop prior to coming to our agency.

BLUE VALLEY COMMUNITY ACTION, INC.

One of top priorities in this 3-county area has been to stimulate community leaders to improve local service and upgrade downtown areas of their respective towns. The HUD film strip, "I Like It Here," was used as the basis for discussing community development with several civic organizations. The Fairbury Kiwanis Club and key members of Jaycees attended the first showing of this film strip. Discussion of plans and financing of downtown improvement followed. Worked with top administrators at Fairbury Junior College where plans are being made for financing and development of a combination auditorium—field house and classroom—office facility, which will be used for instruction purposes, and also for a community meeting facility in Fairbury. Architects' plans are now being drawn up for approval of college and community officials. Attended Rural Development Committee meeting at Jefferson County Extension office. Representatives of all 3 counties (Gage, Jefferson, and Thayer), including Extension Service, ASCS, Soil Conservation Service, and Farmers Home Administration were present. Met with Thayer County Health Committee to discuss best approach to recruiting physicians and dentists. Met with Chairman of Department of Family Practice at the University of Nebraska, Omaha, to get direction on how the town of Hebron should proceed in its recruiting efforts.

C. B. GILLILAND,
Executive Secretary, CSTE Task Force.

CONCERTED SERVICES IN TRAINING AND EDUCATION, QUARTERLY REPORT FOR JULY, AUGUST, SEPTEMBER 1971, AND CUMULATIVE REPORT FROM OCT. 1, 1965, THROUGH SEPT. 30, 1971

WEST CENTRAL CONCERTED SERVICES PROJECT, TODD, OTTER TAIL, AND WADENA COUNTIES, MINN.

	July 1 to Sept. 30, 1971	Cumulative
MDTA:		
Number of projects approved	0	15
Number of approved for training	38	534
Total cumulative trainees enrolled		478
Trainees, dropouts		49
Trainees, completing		284
Number in training July 1 to Sept. 30, 1971	38	
Nelson amendment:		
Operation Mainstream—enrolled	18	
Total cumulative enrollees		164
Green Thumb:		
Enrolled	89	
Total cumulative enrollees		742
National Youth Corps—in school:		
Enrolled	22	
Total cumulative enrollees		492
National Youth Corps—summer:		
Enrolled	150	
Total cumulative enrollees		1,060
National Youth Corps—out of school:		
Enrolled	0	
Total cumulative enrollees		31
Title V—ROA:		
Enrolled	0	
Total cumulative enrollees		206
Job Corps:		
Enrolled	0	
Total cumulative enrollees		16
Head Start:		
Total enrolled 1966		32
Total enrolled 1967		190
Total enrolled 1968		402
Total enrolled 1969		408
Total enrolled 1970		247
Total enrolled 1971		247
OJT (on-the-job training):		
Enrolled	1	
Total cumulative enrollees		86
Vocational education classes—trade extension:		
Enrolled	122	
Total cumulative enrollees		5,072
Vocational education classes—home economics:		
Enrolled	227	
Total cumulative enrollees		2,510
"Other" training and education projects:		
Enrolled	824	
Veterans farm cooperative program	69	
Total cumulative enrollees		6,737
Vocational rehabilitation:		
Placement	29	
Total cumulative placements		341
Adult basic education:		
Enrolled	27	
Total cumulative enrollees		224
Grand total enrollees:		
Enrolled July 1 to Sept. 31, 1970	1,616	
Total cumulative enrollees		18,212

Employment Security Activities, Todd and Wadena Counties,

July 1, 1971 to September 30, 1971

Job referrals	26
Placements	14
New applications for work	72
Job orders	21
Civil service test	1
GATB	2
Referrals to OJT	10

Employment Security Activities, Otter Tail County, July 1, 1971 to September 30, 1971

New applications	314
Nonagricultural placements	189
Agricultural placements	19
Testing	117
Counseled applicants	115
Job Corp referral	1

Otter Tail-Wadena Community Action Council

Project HELP	105
Youth development	200
Economic development	15
Family planning	200

WEST CENTRAL CSTE REPORT—SEPTEMBER, 30, 1971

CONCERTED SERVICES HELPS IDENTIFY THE NEEDS

Occupational survey

The annual fall occupational survey by Concerted Services is underway to identify current employment needs in area villages.

Community Improvement committees

Concerted Services is continuing to meet with several villages in the area to organize local committee for community improvement. During the quarter discussion was held with a group of ministers to outline area needs.

Menahga road needs

Study is being continued on the need for EDA funds to provide a heavy duty road for the new wood products plant at Menahga.

Sheep cooperative proposed

A proposal for starting a sheep raising cooperative in the area was discussed during the quarter with a representative sheep man and the Otter Tail-Wadena Community Action Council. Further study will be given the proposal which would involve low-income farmers.

Historic sites

Assistance was given to the East Otter Tail Historical Society during the quarter in plans for historical preservation of typical pioneer homestead and related machinery and tools.

Need for rural doctors

CSTE has been in discussion this quarter with several communities in search of general practitioners.

EDA assistance discussed in Long Prairie

Coordinator Mandt joined with a representative of the Economic Development Administration in discussing possible EDA assistance to the village of Long Prairie during the quarter, and also met with county commissioners from Todd County, which recently became an EDA designated county after several years of attempts to get it re-classified.

Work in Hubbard County begins

CSTE work in Hubbard County has started. The needs for EDA assistance are being studied. Plans for a veterans agricultural class are underway. Early discussion of the manpower survey and the new Emergency Employment Act are in progress.

COMMUNITY DEVELOPMENT AND AWARENESS

Community facilities funds sought

Assistance is being given to the communities of Perham, Wadena and Staples in obtaining information and funds for community facilities buildings for library services, Head Start, social services and training purposes. Several meetings were held during the quarter with the Perham committee.

Micro city project

CSTE was involved in recruitment of a survey worker to assist the Micro City Project of St. John's University, Collegeville, in taking an inventory of community leader attitudes in August.

Youth employment program

Concerted Services is involved in attempts to expand youth employment services in the area.

Emergency employment act

Many contacts were made during the quarter with county, village and school officials in planning for use of Emergency Employment Act monies allocated for the area. By county the distribution was as follows: Todd—$118,800; Wadena—$46,800; Otter Tail—$96,000 and Hubbard—$123,900.

Center schools

Concerted Services is involved in group discussions of the development of vocational center schools in area high school districts.

Regional commission discussed

CSTE has been involved with the Title I project in Moorhead State College during the month in plans for public discussion of the needs for formation of a regional commission in the area that includes Otter Tail County. Plans call for an area meeting at Fergus Falls in October.

Small farmer advisory committee

The rough copy of the brochure prepared by the small farmer advisory committee has been sent to the printer. The brochure will present the information gathered regarding the small farmer and the committee recommendations for assisting him. Area bankers are being contacted regarding problems.

Hubbard County manpower survey in planning stage

Plans for the manpower survey in Hubbard County are underway. Meetings with the Park Rapids Chamber of Commerce and the County Board of Commissioners are set for October.

TRAINING AND EDUCATION PROGRAMS AND PROPOSALS

Regional health planning

Concerted Services is assisting the Min-Dak Health Planning Council in study of health needs and delivery of future health services.

Law enforcement training

Plans to continue the law enforcement training programs held last year through the vocational schools and junior college extension center are also in progress.

Veterans' agricultural programs

Veterans' Cooperative Farm Training Programs are now operating in Staples, Wadena, Long Prairie and Eagle Bend. Surveys are being taken at Park Rapids and Parkers Prairie. Perham is joining in a joint area program with Detroit Lakes.

Firemanship training

A curriculum is being developed by the Staples Area Vocational-Technical School to help upgrade area firemen. CSTE has been involved in information exchanges for the group.

Agricultural extension aids

Concerted Services has been in contact with the University of Minnesota Agricultural Extension Service to discuss the possibilities of hiring non-professional program aides to work on a 1-to-1 basis with small farmers in the area.

Staples economic conference

Assistance was given to the organizers of the state economic conference at Staples on October 12. About 150 area community leaders were contacted by CSTE regarding the conference.

ENVIRONMENTAL CONTROL AND EDUCATION

Lake pollution

CSTE met with lakeshore owners on Big and Little Pine Lakes during the month to further study the need for pollution control approach in the area. Assistance from the state and university is being sought.

Pollution education

Concerted Services has been assisting other agencies with meetings of concerned lakeshore property owners to view pollution problems and identify employment opportunities related to environmental control occupations. Both the University of Minnesota and Fergus Falls Junior College are involved in studying the training needs.

EDA grant sought by Wadena Village

Letters of need were prepared during the month for Wadena Village in support of grant and loan for improvement of water service to an area with industrial potential.

MISCELLANEOUS

Special article prepared

An article discussing the Concerted Services concept, and the CSTE activity in Minnesota was prepared during the quarter for the Federal Extension Service. It will appear in a series on rural programs in action.

Coordinator Mandt participated in the Governor's Conference on economic development at Grand Rapids in August.

Assistant Coordinator Smalley participated in the state vocational education conference at Bemidji in August.

Regional HEW representative visits project

Mr. Bert Mettelka, Program Officer, Manpower Development and Training, U.S. Office of Education, Region V, met with Coordinator Sherman Mandt and Assistant Coordinator Jared M. Smalley at the Concerted Services office in Wadena on September 15. A discussion was held on project goals and plans for coming year.

Coordinators make Chicago trip

Coordinator Sherman Mandt and Assistant Coordinator Jared M. Smalley joined Mr. C. B. Gilliland, Washington Liaison for the Concerted Services Task Force, and Porter Martin, Illinois CSTE project coordinator, on September 13 and 14 in Chicago. The group met with regional Officials from the Departments of HUD, HEW, and Labor, the Environmental Protection Agency, and EDA to discuss the CSTE program and obtain current information on new programs and program delivery.

Texas CSTE coordinator visits area

Mr. Mac Varley of the new CSTE project area in Texas spent September 20–23 with the Minnesota coordinators in viewing manpower and rural development work. Many personal contacts were made for exchange of ideas.

Coordinator attends special state meeting

Coordinator Sherman Mandt attended a special state meeting on the Emergency Employment Act held at Grand Rapids on September 10 to obtain and help area counties, villages and school districts in identifying needed occupations and positions that could be funded soon.

Assistant coordinator takes census course

Assistant Coordinator Jared M. Smalley participated in the one-day Census Users Conference held at the University of Minnesota on September 22 for persons involved in using census information for human resource development.

ACHIEVEMENTS AND RECOGNITION DURING QUARTER

Wati receives $12,000 grant

A $12,000 grant has been made to the Wadena Area Technical Institute by the Upper Great Lakes Regional Commission to help finance a $60,000 occupational training project in plumbing, electronics, telephone and other industries at the school.

Wadena radar base declare "surplus"

The Wadena Air Force Radar Base located north of Wadena Village has been declared surplus property. A local utilization committee is studying possibilities for future use of the facilities.

Huntersville impoundments dedicated

The Minnesota Commissioner of the Department of Natural Resources was present this quarter to help dedicate Wadena County's Huntersville water impoundments. The project was developed through WesMin RC&D program assistance.

New hospital approved for Wadena

Wesley Hospital board of directors announces this quarter that construction of a new $2.1 million dollar hospital will become a reality thanks to the efforts of hospital administrator Earl Schillo in helping obtain a Hill-Buryon loan for $1,900,000. Construction will begin in the spring of 1972.

Sebeka businessman named to advisory council

John Rife, Sebeka businessman, was one of 22 Minnesota persons named to the new state Natural Resource Advisory Council by Minnesota Governor Wendell Anderson this month. Purpose of the council is to assist the Department in presenting its programs and policies to the public, and getting advice on the wishes and interest of user groups.

Extension center opens

Enrollment for the fall quarter of the Wadena Junior College Extension Center is expected to double this fall. About 60 full-time students are expected.

Training for Menahga wood products firm

On-the-job training for the Minnesota Forest Products Cooperative at Menahga has been approved. Six men are now in training.

Housing study completed

Concerted Services assisted the WesMinn RC&D project with a presentation on housing at Alexandria on July 21. Purpose of the nine county meeting was to focus attention on the housing needs for senior citizens, and the future need for more low and moderate income housing in the area.

Special education cooperative increases staff

The Todd, Otter Tail and Wadena Special Education Cooperative with offices at Wadena has added a new staff member to specialize in Special Learning and Behavior Problems. Luther Schumacher will supervise some 20 teachers in the area and do consultation work.

Wes-Minn RC & D has new coordinator

Darol (Red) Melby has been named the new Project Coordinator of the WesMinn RC&D Project serving nine counties including Todd, Wadena and Otter Tail. He replaces William Oemichen, who was promoted to assistant state conservationist in St. Paul.

CONCERTED SERVICES IN TRAINING AND EDUCATION, QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER 1971, AND CUMULATIVE REPORT FROM OCT. 1, 1965, THROUGH SEPT. 30, 1971, EASTERN ARKANSAS PROJECT

	July 1, 1971, to Sept. 30, 1971	Fiscal year 1972	Cumulative
MDTA:			
Number of projects approved	1	2	22
Number approved for training	20	20	655
Trainees enrolled	21	21	608
Trainees, dropouts, and transfers	1	1	163
Trainees, completing	15	15	433
Number in training July 1, 1971, to Sept. 30, 1971	20		
Adult basic education and GED:			
Enrolled	346	346	
Total cumulative enrollees			4,156
Green Thumb:			
Enrolled	6	6	
Total cumulative enrollees			108
Greenlight:			
Enrolled	2	2	
Total cumulative enrollees			2

CONCERTED SERVICES IN TRAINING AND EDUCATION, QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER 1971, AND CUMULATIVE REPORT FROM OCT. 1, 1965, THROUGH SEPT. 30, 1971, EASTERN ARKANSAS PROJECT—Continued

	July 1, 1971, to Sept. 30, 1971	Fiscal year 1972	Cumulative
Title III–B:			
Enrolled	71	71	
Total cumulative enrollees			822
National Youth Corps in-school:			
Enrolled	73	73	
Total cumulative enrollees			784
Neighborhood Youth Corps out-of-school:			
Enrolled	22	22	
Total cumulative enrollees			517
Job Corps:			
Enrolled	18	18	
Total cumulative enrollees			561
VISTA:			
Enrolled	0	[illegible]	
Total cumulative enrollees			48
Headstart:			
Total enrolled 1966			903
Total enrolled 1967			726
Total enrolled 1968			1,049
Total enrolled 1969			1,244
OJT:			
Enrolled	44	44	
Total cumulative enrollees			105
Vocational education classes trade extension:			
Enrolled	240	240	
Total cumulative enrollees			4,995
Vocational education—Home economics:			
Enrolled	0	0	
Total cumulative enrollees			81
Vocational rehabilitation:			
Enrolled	60	60	
Total cumulative enrollees			1,788
NAB/JOBS:			
Enrolled	79	79	
Total cumulative enrollees			182
STEP:			
Enrolled	14	14	
Total cumulative enrollees			91
Summer Neighborhood Youth Corps:			
Enrolled	111	111	
Total cumulative enrollees			1,837
Emergency Employment Act:			
Enrolled	4	4	
Total cumulative enrollees			4
Summer orientation program:			
Enrolled 1968			300
Enrolled 1970			274
Other training:			
Enrolled	244	244	
Total cumulative enrollees			4,059
Grand totals:			
Quarterly enrollment total	1,355		
Fiscal year 1972 enrollment total		1,355	
Cumulative enrollment total			25,244

Concerted Services in Training and Education Quarterly Report for July, August, and September 1971, *Independence County Arkansas Project*.

MDTA:	
Programs in operation	1
Number enrolled	20
Programs justified by CSTE	1
Jobs:	
Contracts	1
Enrollees	1
Green thumb: Enrollees	14
NYC in-school: Enrollees	22
NYC summer: Enrollees	126

Head Start:	
HEW Head Start	**43**
VISTA-locally funded	**25**
Sheltered workshop: Participants	**16**
Alcoholism:	
Educational program to groups	**14**
Residents of Recovery Center	**49**
Completing course	**24**
Returning for additional treatment	**16**
Step: Enrollees	**5**
College work study: Participants—students	**21**
Emergency Employment Act:	
Number slots	**10**
Number slots filled	**7**

CSTE Quarterly Report—Arkansas—September 30, 1971

Following is a list of projects and achievements to which the Concerted Services in Training and Education Staff contributed.

(1) Alcoholic Recovery Center, Inc.—This is a twenty-four hour treatment facility with a preventative education program. The center is located in Batesville, but serves a multi-county area.

(2) Independence County Mental Retardation Association—Independence, Sharp, and Stone Counties.

(3) Independence County Sheltered Workshop—This workshop provides for training and gainful employment of mentally and physically retarded individuals.

(4) Community School for Trainable Children of Independence County—Offers education and training with emphasis on personal and social skills and self-help skills to mentally retarded children ages 6 to 12.

(5) Collection of Data Relative to Health Problems and Resources of the Area.

(6) Melborne Vocational-Technical School—This school would send service to a multi-county area which includes Independence County. The State Department of Education has committed funds for the construction of the school.

(7) Neighborhood Facilities—The CSTE Coordinator has been active for years in the development of applications and funding of a facility at Cushman. The facility is now about 99% complete.

(8) Emergency Employment Act—CSTE worked closely with state, county, and city officials in implementing the EEA.

(9) Clerical Cluster-MTDA—This project was in operation when the CSTE office was opened. CSTE is working with Employment Security and Vocational Education personnel in evaluating the cluster and planning for future programs.

(10) JOBS—A JOBS contract for training a laboratory assistant was negotiated by ESD.

(11) MDTA—The CSTE office has completed justifictaion for an Auto Body Repair Training portion Program. The application is being prepared now.

(12) College Enrollement—The CSTE office was instrumental in obtaining the enrollment of five people in the regular program at Arkansas College. Loans and grants made the enrollments possible. Two more people are scheduled to enroll in the spring semester.

(13) Continuing Education—Eighty one people are enrolled in four continuing education classes at Arkansas College and twenty five are enrolled in the college's Cherokee Village program in Sharp County. CSTE has been and is continuing to be very active in this field. Programs are now being planned for the spring semester. Foothills Vocational-Technical School has pledged their cooperation and assistance.

(14) The Goddard Arkansas Program in Further Education—This is a program to take college education to the people. CSTE and Duane Wells of Goddard College at Plainfield, Vermont, have worked long and hard to bring this "vest Pocket" college to Arkansas and Independence County.

Batesvile, Arkansas Quarterly Report, September 1971

(15) Head Start—CSTE assisted in locating space for the Batesville Head Start Program. CSTE also assisted in the planning and initiation of a summer Head Start Program at Cushman. The Cushman program was a local effort with

no federal funds involved. Twenty-five children were served in the Cushman program and thirty-six are presently enrolled in the Batesville program.

(16) Neighborhood Youth Corps—CSTE assisted in the evaluation of NYC enrollees and work stations. CSTE assisted the NYC Director in establishing meaningful work stations.

(17) Ozark Gateway Tourist Council—Organized as a non-profit corporation to promote tourism in this area.

(18) Health Planning Council—CSTE Coordinator is a member of the Independence County Health Planning Council.

(19) Trade Extension—CSTE assisted in planning and applying for four trade extension courses. Trade extension classes in welding and electricity and house wiring were held during the quarter.

(20) Job Development and Placement—CSTE is working closely with the Employment Service and CAA-OEO in job development, placement, and counseling.

(21) Veteran's Training—CSTE is working with Independence County School Supervisors, local school officials, and State Department of Education officials in estabilshing veteran's training programs. A Veteran's Affairs officer was recently appointed by James Elms, Independence County Judge.

(22) Senior Citizens—CSTE is assisting the Newark Senior Citizens Center in reestablishing organized and meaningful activities in the Center. An appeal to the Office on Agng is being prepared in an attempt to recover equipment and furnishings, which were removed by the office on Aging.

(23) Regional Civil Services Center—CSTE is cooperating with other agencies in exploring the possibility of utilizing a vacant college dormitory as an office building to house civic and social services agencies. This would provide a wide range of services in one building.

(24) Day Care—CSTE is working with various groups in seeking to provide a day care program especially for low income families but not necessarily restricted to tender them.

(25) The Human Resources Center—CSTE is working with Arkansas College in exploring and planning a human resources center. This center would superimpose a community college over the private college. It would also include ABE, GED, Continuing Education, non-credit and credit seminars, lectures, demonstrations, and workshops, community and school assistance in counseling, testing, etc., Vocational-Technical training, two year associate degree, four year Bachelor degree and five year Master degree programs. Many ideas and concepts are being studied at the present time.

(26) Swine Lease Program—This program is sponsored by CAA-OEO. Disadvantaged families may purchase sows by paying with pigs produced by the sows.

Following is a list of projects and achievements which were far along toward reality when the CSTE office was established. CSTE is now active in these projects and will be giving some form of assistance in their competition and/or utilization.

(1) Regional Airport—Batesville has been designated by the Economic Development Administration, U.S. Department of Commerce, as a "growth center" for ten north central counties. A Regional Airport is now under construction using funds from the Department of Transportation, Ozarks Regional Commission, and local sources.

(2) Blanchard Caverns—The U.S. Forest Service is developing the caverns as a tourist attraction. Blanchard Caverns is expected to equal or surpass even Carlsbad Caverns in size and beauty. The Forest Service has estimated that at least one-half million people will visit the caverns during the first year of operation.

(3) Mountain View Folk Cultural Complex—This will include at least 22 craft programs, an annual Folk Festival, an Education Center, an outdoor amphitheater with a capacity of 5000, and a skill training center.

(4) Mental Health Clinic—The North Central Arkansas Mental Health Clinic, Inc. has a clinic in Batesville. This clinic is open one day each week and appointments can be made for other times. Fees are nominal and are based on family size and income.

(5) White River Regional Medical Center—This is to be a complete medical facility located in Batesville but to serve a multi-county area.

(6) City Parks and Recreational Area Expansion—Federal funds will allow for the expansion of Riverside Park and the development of a public golf course and other recreational accommodations.

(7) Batesville Housing Authority—Batesville has been approved for 100 plus units of low rent-elderly housing.

CONCERTED SERVICES, SANDOVAL COUNTY, BERNALILLO, N. MEX.

PROJECTS COMPLETED

MDTA-RAR; Adult Basic Education; Title III-B, EOA, HELP, Title V; Mainstream Operation; Cuba Adult Program.
Title III-B—Older American Program.
Employment Security Commission.
Title V Project, Welfare Department.

CURRENT PROJECTS AND/OR PROGRAMS (CUMULATIVE STATISTICS OCTOBER 1965 SEPTEMBER 1971)—JULY, AUGUST, SEPTEMBER 1971

	Quarter	Cumulative
Bernalillo Vocational Skills Center:		
Auto mechanics (50)		
Office education (94)		
Electronics (55)		
Home economics (105)		
Graphic arts (63)		
Electricity-refrigeration (60)		
Nursing (41)		
Drafting (39)		
Agriculture (37)		
Building trades (76)		
Job opportunities (31)	651	3,005
Jemez Valley High School:		
Industrial arts (70)		
Home economics (90)		
Building trades (18)	178	215
Cuba High School:		
Business education		
Home economics		270
DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
Food stamp program:		
Persons participating	18,926	234,291
Stamps issued	451,794	1,845,318.32
Cash received	$129,289.75	628,575.25
WIN: Number in program	4	130
Northern New Mexico concentrated employment program, ESC:		
Intake order; persons called to jobs	56	248
Actual training; OJT, move, JOBS 1970	41	234
Community action programs, OEO, Bernalillo:		
Mainstream operation	37	552
Emergency food services	1,463	4,269
Family planning services	59	530
Vista	0	31
Legal aid services:		
Cases	208	2,381
Participants	437	3,149
Headstart 1965-September 1970	60	1,673
National Youth Corps:		
In school	39	1,825
Summer	238	182
Information on Indian programs	(1)	(1)
Small Business Administration: 1 loan to Apodaca Brothers chile processing plant	$50,000	
Farmers Home Administration: 13 loans for homes, livestock purchase, and water wells	$110,000	
Referrals for jobs: Training/other agencies	10	82

[1] Not available.

ACTIVITIES WITH INDIAN AND NAVAJO GROUPS

Patents and documents to establish land ownership were gathered, reviewed and documented at the Sandoval County Courthouse and deemed correct by Legal Aid Services for the Navajo families requesting assistance in getting water wells and storage tanks. Cooperated with Farmers Home Administration and ASCS in assisting Navajo families in form filling to get financial help. By the end of September, 1971, four water wells were drilled and completed—Toledo, Herrera, Tsinnajinnie and Smelser.

BIA submitted proposal to EDA seeking funds to develop an Indian Industrial Park near Bernalillo. Concerted Services supported the project by obtaining letters of endorsement from the County Commissioners and businessmen.

The Jemez Electric Co-op was approved for REA funds to render electrical services to Navajo families. Follow up made to determine number of families who signed up for this service.

Coordinated meetings with the Indian CAP to come up with a plumbing and electrician training program for hiring of trainees in the six Indian pueblos. The governors of each pueblo will confer further to come up with a class.

SANDOVAL COUNTY CSTE—SEPTEMBER 30, 1971

HEALTH

The Cuba-Checkerboard Area Health System application has been funded $141,000 by Four Corners Regional Commission, which will become available when the federal grant from Health, Education, and Welfare is processed and approved for the requested amount of $371,528. Utilization of Four Corners monies as state matching funds will have to be clarified before the application is given final approval.

As a result of attending Comprehensive Health Council meetings, the St. Joseph-Presbyterian Cooperation Health Service steering committee met in Bernalillo to determine the interest and support the people would lend to a clinic if one were established in this area. Facts were obtained, and consequently CSTE will make a Medicaid-Medicare survey to learn the number of persons who would utilize the facility if it were available. Contacts will be made with various landowners for a land site for this proposed clinic.

At one of the meetings, Dr. James R. Gay, Director, New Mexico Regional Medical Program, spoke to the group indicating that an ambulance for the areas of Torreon, Lybrook and Cuba would be approved and funded through the Department of Transportation. Direct communications, via radio, from these communities to Bernalillo County Medical Center, will be maintained. Plans are to secure an ambulance for the Bernalillo-Rio Ranchos area.

The Department of Health and Institutions assigned Pat Pratte as Coordinator for Sandoval County in community mental health services. Miss Pratte will be acquainted with community leaders and citizens in the county so that her function and role will be known.

CONSERVATION

The Sandoval Soil and Water Conservation District and Soil Conservation Service developed a pilot conservation project to do all the planned erosion control and sediment retardation work in the Sandias Watershed Project. The Board of Supervisors have authorized CSTE to implement the project by seeking funds and/or ideas of other agencies to obtain labor force to do the actual work on this project. CSTE is working with the Employment Security Commission, the Town of Bernalillo, and the Sandoval County Commission in this regard.

EXTENSION SERVICE

A new Home Extension Agent, Mrs. Shirley Hastings, has been named for Sandoval County. A permanent assignment of an agent is as a result of the efforts of a voluntary VISTA obtained through CSTE and Washington OEO several years ago. To date, nine extension clubs have been organized in the county. Extension Service has been active in cooperating with the Nutrition Committee of Sandoval County on nutritional aids for families. Discussion was held this month with Extension Agent as to the possibility of getting a 4-H leader for the county.

INDUSTRIAL

The Bernalillo Development Corporation and CSTE has conferred with a garment manufacturing company, providing the plant officials with data on Sandoval and San Miguel Counties as to availability of land sites, etc. The S&L Corporation has started production with two homes under construction in Bernalillo. These homes are constructed from modules which are a light weight sandwich of polyurethane. When this plant is operating on three shifts, it will be able to turn out from six to eight houses a day and the plant will start up with from 10–15 employees when completed.

Application to Small Business Administration for a $70,000 loan to build a machine tool shop was compiled and completed on behalf of the Bernalillo Development Corporation.

The Apodaca Brothers' Chile Processing Plant in Bernalillo is in full operation, employing 34 persons in two shifts.

North Central New Mexico Economic Development District forwarded forms to our office to be executed by Sandia Battery Company and Bernalillo mayor to substantiate data for the EDA application pending for water/sewer facilities for the Bernalillo Industrial Park.

The people in Ponderosa organized into the Ponderosa Mutual Domestic Water Consumers' and Mutual Sewage Works Association. Concerted Services assisted this group in compiling Articles of Incorporation and By-Laws. Applications for financial assistance through FHA will be processed and future meetings coordinated until project is completed.

HOUSING

The Local Housing Authority is applying to HUD for additional public housing—150 unit. The 76 units are under construction, and applications for occupancy will be taken during the months to come. Completion is expected in January, 1972.

ANOTHER INCORPORATED VILLAGE IN COUNTY

Corrales, situated 18 miles west of Bernalillo, incorporated recently electing a woman mayor and council. CSTE has been asked to give this Council help in getting projects underway.

ZERO BASE BUDGET

Concerted Services in Training and Education, as a Division of the Department of Vocational Education, prepared a Zero Base Budget for Sandoval and San Miguel counties for fiscal year 1972–1973. This budget will be reviewed by the Legislative Finance Committee.

PROPOSED MEETING WITH GOVERNOR OF NEW MEXICO

Arrangements being made by Ernest A. Vigil, Director of Vocational Education, for a meeting of the CSTE Advisory Committee and Coordinators with Governor Bruce King. At that time an up-to-date report on CSTE activities will be provided.

VISITORS

Mr. & Mrs. Frank Pollard, Washington; Patricia Knapp, Las Cruces; Clarence Edmond, University of Arizona; Ed Henderson and Emmet Tiner, Dallas Regional Office; Fred McCracken, Manpower Division, Employment Security Commission.

OTHER ACTIVITIES

Annual reports prepared from draft for the Jemez Soil and Water Conservation District and the Sandoval Soil and Water Conservation District. Follow up is continued on the conservation plan proposal developed by the Sandoval Soil and Water Conservation District.

Provided Educational Writer Staff, Department of Vocational Education, with a story on the water wells in the Navajo area for their annual report to the Superintendent of Public Instruction.

President of the New Mexico League of Women Voters asked CSTE to locate a speaker for their meeting in October who would give the group a current report on New Mexico Welfare Programs. Mr. Vicente Pacheco, Director Finance Assistance Division, Sante Fe, was contacted and he agreed to speak before the group October 6 in Placitas.

Following an office inquiry, CSTE obtained information on the status of the Social Security Law pertaining to the inclusion of a disability clause making persons elgible for Medicare. Through the office of Senator Montoya, it was learned that this bill was passed by the House of Representatives; has been referred to the Senate Finance Committee where it is pending. Indications were that it would be appropos for the local people to contact their senators urging passage of this bill, and the inquirer was so advised. The party was assisted in this regard, hoping that passage of this bill will help many persons with medical-hospital expenses through Medicare.

Telephone conversation with C. B. Gilliland, CSTE Liaison, indicates the fall session of the CSTE Coordinators meeting will be held in Washington, November 8–12, 1971.

Arrangements made with a local cafe to have the September Apprenticeship Council meeting as requested at the August gathering. Approximately 25 members will trek to Bernalillo for this luncheon-meeting.

The Adult Basic Education teacher asked to use the CSTE office once a week to hold her adult class of 17 enrollees until she can locate suitable quarters. Director at the Vocational Skills Center is making room to accommodate this class.

Clerical assistance given to the Bernalillo Young Men's Organization, the Jemez and Sandoval Soil and Water Conservation Districts, Town of Bernalillo, Soil Conservation Service, Bernalillo Development Corporation, ASCS.

***Meetings attended by Coordinator and Secretary.*—Apprenticeship Council, Local Housing Authority, Comprehensive Health Council, RC&D, Vocational Education staff, ASTD, Soil and Water Conservation District, ACP, Nutrition Education, conferences with FHA, SBA, Employment Security Commission, San Felipe Pueblo Council, Santo Domingo Pueblo representatives on matters pertaining to county.**

CONCERTED SERVICES IN TRAINING AND EDUCATION—QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER 1971 AND CUMULATIVE REPORT FROM APR. 1, 1969—SAN MIGUEL COUNTY, N. MEX.

Concerted services referrals	Quarterly	Cumulative
Employment office:		
For employment	3	42
Training	2	41
SATB	0	28
CEP—Concentrated employment program: Training	16	70
HELP—Home education livelihood program: Training	3	23
R.C. & D.—Resource conservation and development project: For employment	2	11
CAP—Community Action Program:		
Emergency food and medical services	0	14
For employment or training	0	30
Cottage crafts project	0	31
H. & S.S.—State health and social services department: For assistance	2	7
New Mexico Building and Construction Trades Council: For training in carpentry, roofing, plasterer, cement mason, plumber, and electrician	0	8
Area vocational school:		
For employment	7	17
For training	7	65
High school:		
CED test	0	11
Adult basic education	0	10
Night high school	1	7
Others [1]—For employment	23	81
MDTA:		
Number of projects approved	0	11
Number of approved for training	0	146
Total cumulative trainees enrolled	0	146
Trainees, dropouts	0	9
Trainees, completing	0	81
Number in training as of Sept. 30, 1971	0	131
PEP—Public employment program:		
Total enrollees	31	31
Enrolled as of Sept. 30, 1971	31	31
Nelson amendment:		
Operation mainstream enrolled	24	74
Total cumulative enrollees as of Sept. 30, 1971	12	38
Title III-B (HELP):		
Total enrollees (migrant underemployed seasonal workers)	58	461
Still enrolled as of Sept. 30, 1971	58	392
New York City:		
Inschool:		
Total enrollees	97	243
Enrollees as of Sept. 30, 1971	90	236
Out of school:		
Total enrollees	8	100
Enrollees as of Sept. 30, 1971	0	92
Special summer:		
Total enrollees	310	1,081
Enrollees as of Sept. 30, 1971	310	1,081
Job Corps:		
Total enrollees	4	106
Enrolled as of Sept. 30, 1971	4	109
Basic adult education:		
Total enrollees during period	80	517
Still enrolled as of Sept. 30, 1971	80	502

See footnote at end of table.

CONCERTED SERVICES IN TRAINING AND EDUCATION—QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER 1971 AND CUMULATIVE REPORT FROM APR. 1, 1969—SAN MIGUEL COUNTY, N. MEX.

Concerted services referrals	Quarterly	Cumulative
Headstart:		
Total enrollees	195	305
Still enrolled as of Sept. 30, 1971	194	304
Special summer Headstart (Pecos)	0	146
Table III (cooperative project in special education):		
Total enrollees (program discontinued)	0	78
Enrolled as of Sept. 30, 1971 (program discontinued)	0	78
Vocational rehabilitation:		
Total enrollees	0	106
Enrolled as of Sept. 30, 1971	0	68
CEP—On-the-job training (unavailale):		
Total enrollees	0	11
Enrollees as of Sept. 30, 1971	0	11
CEP—MOVE (multioccupational vocational education) (unavailable):		
Number of projects approved	0	1
Total enrollees	0	87
Enrolled as of Sept. 30, 1971	0	33
Placed in jobs	0	49
OJT SER (service—employment redevelopment):		
Total enrollees	0	45
Enrolled as of Sept. 30, 1971	0	20
Child development center:		
Total enrollees	46	304
Enrollees as of Sept. 30, 1971	46	304
Follow Through:		
Total enrollees	348	2,187
Enrollees as of Sept. 30, 1971	348	2,187
Special summer Follow Through	0	66
Night high school:		
Total enrollees (program discontinued)	0	52
Enrollees as of Sept. 30, 1971 (program discontinued)	0	52
STEP—(supplemental training and employment program):		
Total enrollees	36	165
Enrollees as of Sept. 30, 1971	36	159
ESC—Employment security commission activities:		
New applications	960	4,817
Counseling interviews	132	1,807
Placements on jobs	201	2,448
Service to employer out of Las Vegas	100	629
GATB's	72	426
SATB's	0	34

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[1] JOB 1970 proposals submitted up to date .... 30 ....

ASCS-Agricultural Stabilization Conservation Service

The La Fragus Puertesito Y Saiz Community Ditch Special Project has completed part of the work and should complete the entire project soon.

The Las Tusas Community Ditch and the Herrera Community Ditch agents are in the process of obtaining bids for their special projects, and are very anxious in getting the work done before the end of the year.

The South Villaneuva Community Ditch Special Project received final approval from the State Committee for installation of an irrigation CMP Flume, and construction should start soon.

The Livestock Feed Program was suspended by the State Committee effective September 17, 1971 in San Miguel County. The State Committee felt that range conditions were adequate to serve the livestock at the present time. If conditions change the program could be reinstated at a later date between now and March 31, 1972.

416 applications under the Livestock Feed Program were approved during the drought emergency period.

The county received additional funds for Emergency Conservation Practices and cost-shared with producers in deepening and drilling livestock water wells, pipelines and drinking facilities to replace structures which went dry due to the drought.

The County ASCS office, as well, as all ASCS offices throughout the United States have been chosen as information centers to answer questions from all citizens on President Nixon's Executive Order which is designed to stem inflation and strengthen the national economy.

The County ASCS office is receiving official answers to questions concerning the President's action, and any person who wants or needs precise information should get in touch with the county office.

	San Miguel County	Total
FHA—Farmer's Home Administration:		
Type of loans approved:		
Rural housing	7	7
Operating loan	0	0
Farm ownership	0	0
Equal opportunity	0	0
Coop	0	0
Association	0	0
On hand:		
Rural housing	15	15
Operating loan	6	6
Farm ownership	8	8
Equal opportunity	0	0
Coop	0	0
Association	0	0
Emergency loans	2	2
Total loans approved for San Miguel County	7	

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[1] These people were referred to different places for possible employment.

LUNA AREA VOCATIONAL-TECHNICAL SCHOOL

Luna area vocational-technical school courses

The following courses are being offered for the fall term at the Luna Area School:

Welding
Drafting
Building trades
Clerk-steno
Electronics
Auto mechanics
Nursing

Individual (CEP)—concentrated employment program referrals

There are approximately (36) thirty-six individual CEP referrals taking part in the courses listed above, which are being offered as individual referrals.

MDTA programs

The Luna Area School is not conducting any MDTA Training at the present time.

HUD turn-key III project training

Classes were conducted at the Luna Area School for the local Turn-Key III unit residents for the Home Management Courses.

We have (1) to (15) students in some of the classes being offered. With these students and the regular students attending the day classes and night offerings, there are approximately (294) two-hundred and ninety-four enrollees.

QUARTERLY REPORT—SAN MIGUEL COUNTY

HOUSING AUTHORITY

There are (270) two-hundred and seventy conventional low-rent housing units. One-hundred (100) Turnkey III units are for eventual ownership by the tenant. All of the above (370) three-hundred and seventy housing units are under contract. The (270) conventional low-rent housing units are for rental only and are leased. At the present time, there are no available vacancies.

SCS—soil conservation service

New cooperators	2
Technical services	109
Racipients applying one (1) or more practices	6
Conservation plans prepared	4
Conservation plan revised	1
Service on resource planning	1
Services to groups	59
ECAP referrals serviced	6

R.C. & D.—resource conservation and development project

Projects completed	32
Active projects and progressing	58
Temporarily inactive projects	6
Projects discontinued (not feasible)	24
Total projects	120

CAP—SANGRE DE CRISTO COMMUNITY ACTION PROGRAM

(Not in operation).

FOOD STAMP PROGRAM

Report for July and August are in, but September report did not arrive in time to process total stamp participation. Report will be sent to Washington as soon as all totals for July, August, and September are processed.

COUNTY COOPERATIVE EXTENSION SERVICE

(Unavailable).

PROJECTS WHERE CSTE ASSISTANCE WAS INVOLVED

1. Coordinator was appointed member of the Education Committee, Constitutional Committee, and Nominating Committee of the Adelante RC & D Project.
2. Working with Scalon and Associates, Inc. on recommendations they have submitted to our office on jobs that would be opened by the Elk Mountain Road Project if construction is approved. These people would be trained prior to being hired by the contractors.
3. Attended all of the New Mexico Apprenticeship Association monthly meetings and reported on activities from San Miguel County.
4. Cooperated with Ribers professional weaver in trying to form training for the local people there. The people are hesitant to try out for this type of project.
5. Coordinator is assisting and cooperating with the White House Conference on Aging that has formed various committees.
6. The Emergency Employment Act (EEA), had made provisions for (16) veterans to be employed in San Miguel County through the Employment Security Commission.
7. CSTE office is communicating with local Employment Security Commission in recommending Viet Nam and Korean veterans who could be registered on the waiting list for the Emergency Employment Act (EEA).
8. RC & D Constitutional Revision Committee met in CSTE office to revise the RC & D Constitution and Bylaws. Coordinator is a member of this committee.
9. Contacted local Employment Security Commission manager and discussed training recommended by Scanlon and Associates, Inc. for training people for the Elk Mountain Road Project. This training might be implemented by (MDTA)—Manpower Development Training Act under Section #241.
10. The CSTE office is working closely with the new Gibson Recreation Center in Las Vagas which has been selected to be used by the senior citizens of the community. It will provide recreational facilities and will be sponsored by the city.
11. The Methadone Maintenance Program met in CSTE office to make those attending aware of assistance and are now working on a proposal to be submitted for assistance.
12. Our office has undertaken a project to help disabled persons as well as blind persons to request record players and talking books from the Library of Congress through the State Library in Santa Fe.
13. CSTE office is assisting with any RC & D proposals for this county.
14. Attended several workshops on the Zero-Base Budget regarding the State Department of Vocational Education which we are a unit of. The Legislative Finance Committee will hold hearings later in the year with the State Director of Vocational Education.
15. A two-day Soil Conservation Service Information Workshop was held in CSTE office where various towns were represented by sending their representatives of their local units. This workshop was proposed to instruct personnel

present lectures on better public relations and how to write interesting articles for their local news, radio, and television media.

PROPOSED PROJECTS WHERE CSTE WILL PARTICIPATE

1. CSTE will assist on Pecos Valley Crafts Project.
2. Assistant on outright grants for local residents for remodeling homes through HUD.
3. Work with Helping Hands, Inc. in adjacent county.
4. Coordinator will work with RC & D Project on their proposals.
5. CSTE is considering ABE Classes for residents of the Turnkey III housing units.
6. Assist the local Extension Service in developing a homemakers program for Turnkey III families.
7. Cooperate with Chamber of Commerce in proposed industry for the surrounding area.
8. White House Conference on Aging.
9. Methadone Maintenance Program in Las Vegas.
10. Gallinas-River Watershed Project in San Miguel County.
11. Elk Mountain Road Project in San Miguel County.

CONCERTED SERVICES IN TRAINING AND EDUCATION McCURTAIN COUNTY, OKLA.: QUARTERLY REPORT FOR JULY, AUGUST AND SEPTEMBER 1971 AND CUMULATIVE REPORT FROM OCT. 1, 1968, THROUGH SEPT. 30, 1971

	July 1, 1971 through Sept. 30, 1971	Cumulative
MDTA:		
Number of projects approved	0	17
Number approved for training	0	340
Trainees enrolled	20	179
Trainees completing	0	112
Number in training Sept. 30, 1971	48	207
Adult basic education:		
Total enrollees	23	1,008
Enrolled as of Sept. 30, 1971	23	1,008
Adult education:		
Total enrollees	0	302
Enrolled as of Sept. 30, 1971	0	302
National Youth Corps in-school:		
Total enrollees	70	457
Enrolled as of Sept. 30, 1971	70	457
National Youth Corps out-of-school:		
Total enrollees	18	138
Enrolled as of Sept. 30, 1971	18	138
WIN program:		
Total enrollees	11	68
Enrolled as of June 30, 1971	11	68
Head Start:		
Total enrollees	200	860
Enrolled as of Sept. 30, 1971	200	860
Jobs program:		
Total enrollees	6	96
Enrolled as of Sept. 30, 1971 (these 6 enrollees are left from original 12 in last report)	6	123
Vocational education classes:		
Total trade extension enrollees	825	3,013
Enrolled as of Sept. 30, 1971	825	3,013
Home economics:		
Total enrollees	575	2,196
Enrolled as of Sept. 30, 1971	575	2,196
Vocational rehabilitation:		
Total enrollees in training	42	815
In training as of Sept. 30, 1971	42	1,219
OJT program:		
Total enrollees	0	43
Enrollees in training Sept. 30, 1971	0	47
STEP program:		
Total enrollees	2	22
Enrollees in training Sept. 30, 1971	2	22
Emergency Employment Act:		
Total enrollees	6	6
Enrolled as of Sept. 30, 1971	6	6
Placed in jobs (September)	120	862
Grand total enrollees in training this quarter	1,826	
Grand total enrollees since start of project		9,666

A grant of $33,416.00 was made by the Ozarks Regional Commission for improvements to the Broken Bow Airport. Total cost of the project is $111,388.00 to be financed by the Federal Aviation Administration, the Sate Aeronautical Commission, and local funds.

Comprehensive Health Planning for the seven-county Kiamichi Economic Development District was made possible by a recent grant from the Public Health Service of the Department of Health, Education and Welfare. Mr. Harold Watson, Director of Health Planning for KEDDO, is busy organizing a health council composed of representatives from the seven-county area to identify health needs for the area.

The Oklahoma State Department of Vocational and Technical Education, Special School Division, in cooperation with the Oklahoma State Employment Service, plans to conduct pre-employment training for persons interested in working at the new plywood mill at Wright City. This mill will use both male and female workers. Trainees will receive three weeks of schooling, three hours per night, four nights per week.

State Farmers Home Supervisor, Mr. Spud Widener, attended ground-breaking ceremonies for starting construction on the Mountain Fork Rural Water District. This project is being financed by a 1.1 million dollar loan from the Farmers Home Administration.

A Comprehensive Plan for Idabel development through 1990 was presented to the City Council and Planning Commission. This Plan was developed by Community Planning Associates of Tulsa.

CSTE Coordinator attended an Industrial Workshop at Arrowhead Lodge. The meeting was arranged through the State Chamber of Commerce and was well represented by members of the business community.

CSTE Coordinator attended a Regional Planning Seminar at Eastern Oklahoma College in Wilburton. This meeting was sponsored by the Kiamichi Economic Development District, University of Oklahoma's Office of Urban and Community Development, and State Department of Vocational and Technical Education.

Percentagewise, McCurtain County led all counties in Oklahoma in retail sales gains during the fiscal year 1971. This was a gain of 21.29 percent over the 1970 fiscal year sales tax collections.

A new home building firm has been organized by a group of Broken Bow business men to build homes in the $25,000.00 to $35,000.00 price range.

The Wilderness Area tours conducted by the Oklahoma Department of Wildlife Conservation have proven popular during the summer. Many varieties of plant and animal life are abundant in the area.

The Choctaw Nation Housing Authority will build 75 new homes for Indians in McCurtain County.

According to Lt. Governor George High, travelers in McCurtain County spent $2,789,000.00 in 1970. This was an increase of 127 percent over the 1969 calendar year. Most of the tourists apparently were attracted to the area by the new Broken Bow Reservoir. Beavers Bend State Park attracted 440,300 campers and trailers. The attendance at the park was listed as 2,250,100 over the past year.

Meetings have been held to acquaint the public with the sanitary landfill method of solid waste disposal.

The Choctaw Bilingual Education Program has been approved and an allotment of $128,000.00 to carry out the program has been made by the U.S. Office of Education. Mrs. Fayrene Benson, County Superintendent of Schools, has been chosen as coordinator of the project. Southeastern State College located at Durant is co-sponsor of the project.

A mobile Health Clinic has been stationed in McCurtain County to take health services to the remote areas of the county. This is a needed service for those who have travel problems, and for various reasons cannot make a trip to the County Health Department. During a recent three-day stay in Valliant a total of 181 persons took advantage of the services provided. Additional communities are being scheduled for these services.

A non-medical health officer has been appointed to head the multi-county Health Departments of McCurtain, Latimer and Haskell Counties. He will have administrative responsibilities, thereby releasing medical directors to spend more time in clinical procedures. This is a new concept aimed at giving medical directors more time to spend with patients and releasing them from budget and personnel problems.

Coordinator met with Bureau of Indian Affairs representatives in Talihina to discuss training and job opportunities for Indians in the McCurtain County area.

CSTE Coordinator met with a group to discuss training in health occupations. Meeting held in office of Mr. Clyde Hamm, Chief, Community Employment Development, State Capitol, Oklahoma City. Present for the meeting were Mr. Hamm; Mr. Bobby Scott, Assistant to Mr. Hamm; Mr. Bill Burk, Assistant Commissioner of Health, State Health Department; Mr. Hunter Kemmet, Economic Development Administration Representative; Mr. Harold Watson, Health Planner, KEDDO; his assistant, Mr. Mike Pamplin; Mr. Jim Smith, Coordinator Ouchita Mountains RC&D Project; Mr. Bill White and Mr. Jess Banks, Vocational Education; Mr. Gary Lyle, State WIN Project Supervisor; and Mr. Charlie Wheaton of the Oklahoma Employment Security Commission.

Plans were made to identify health needs at an early date, and then call another meeting to discuss training needed to meet the most urgent demands.

Employment has reached its peak in the 200 million dollar plant construction projects underway in McCurtain County. With the paper plant scheduled to begin making paper in December of this year, approximately 2100 construction workers will be phased out as their parts of the plants are completed. A large number of these workers will leave the area to return home, or go to other jobs for Brown & Root Construction Company. A small force will remain for a while after the plants go into production as a maintenance crew to make any needed corrections.

The CSTE Coordinator has been active in working with the Chamber of Commerce Industrial Committee in securing information, and meeting with two industrial prospects who are considering this area for plant locations.

CONCERTED SERVICES IN TRAINING AND EDUCATION, CHEROKEE COUNTY, OKLA.: QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER 1971, AND CUMULATIVE REPORT FROM JULY, AUGUST, AND SEPTEMBER 1971

	July 1, 1971 through Sept. 30, 1971	Cumulative
MDTA:		
Number of projects approved	1	1
Number approved for training	50	50
Adult basic education:		
Total enrollees	8	71
Enrolled as of Sept. 30, 1971	8	8
Adult education:		
Total enrollees	50	76
Enrolled as of Sept. 30, 1971	50	76
Headstart:		
Total enrollees	113	226
Enrolled as of Sept. 30, 1971	113	226
Foster grandparent program:		
Total enrollees	22	44
Enrolled as of Sept. 30, 1971	22	44
Family planning:		
Total enrollees	531	531
Enrolled as of Sept. 30, 1971	137	531
NYC in-school:		
Total enrollees	207	237
Enrolled as of Sept. 30, 1971	207	237
WIN program:		
Total enrollees	4	33
Enrolled as of Sept. 30, 1971	4	33
Vocational education classes:		
Total enrollees	396	773
Enrolled as of Sept. 30, 1971	396	773
Jobs program:		
Total enrollees	4	13
Enrolled as of Sept. 30, 1971	4	13
Vocational rehabilitation:		
Total enrollees	211	360
Enrolled as of Sept. 30, 1971	211	360
STEP program:		
Total enrollees	14	34
Enrolled as of Sept. 30, 1971	14	34
OJT program:		
Total enrollees	0	2
Enrolled as of Sept. 30, 1971	0	2
Other training and educational projects:		
Total enrollees	2	7
Enrolled as of Sept. 30, 1971	2	7
Placed in jobs	13	16
Grand total of enrollees	1,218	
Grand total enrollees since start of project		2,097

Number of projects approved:	*Trainees*
WIN program	9
JOPS program	2
MDTA skill center	48
Vocational educational training	76
Nurses aid training	26

MDTA

The Cherokee Hills Skill Center has started and has fifty enrollees. The courses attentatively scheduled are: (1) Bulldozing, (2) Health occupations, (3) Mechanics, (4) Clerical skills, (5) Water and sewage upgrading, and (6) Welding. There will be a satellite school in the R.C.&D. seven county area.

The Skill Center is located south of Tahlequah on the Cherokee Tribal Building where the facilities are much improved from our last MDTA center.

Adult basic education

A total of 8 persons were enrolled in Adult Basic Education Classes in Tahlequah.

Adult education

A class of 50 persons are taking part in the Adult Education at the Tahlequah High School.

Head Start program

A total of 113 youngsters are enrolled in three centers in Cherokee County. The centers are located in Briggs, Hulbert, and Sequovah Training School.

Career Development—Thirteen adults enrolled in Head Start Teachers Training.

Foster grandparent program

Persons, sixty years or older, going to institutions or schools who will work with one child for two hours a day.

Family planning

A program for any persons who are interested in different ways to control your family. This program offers you help and information on how to raise children you already have.

NYC in-school

The NYC In-School Program has been very active in Cherokee County. This program has furnished employment and training for needy boys and girls, allowing them to remain in school and not become dropouts.

WIN Program

Established to help people referred for services by the Department of Public Welfare. This program is designed to train people from the welfare rolls and get them into gainful employment.

Vocational education classes and home economics

Vocational Education and Home Economic Classes are taught to high school students to acquaint and prepare them with the work of today.

JOPS program

A total of four persons at the Mid-West Nursery are participating in nursery work. One person is receiving training at the Liberty State Bank.

Vocational rehabilitation

Individuals with physical disabilities are provided medical services and training. Most of the trainees are sent to colleges or trade and vocational schools. Placement assistance is also provided for those who need help in getting work when training is completed. This program has been very active in Cherokee County.

STEP program

This program is designed to furnish work to trainees who have completed training in Jobs Corps or MDTA courses and have been unable to secure a job due to a slow-down in our national economy. This is an excellent program in our area.

OTHER TRAINING AND EDUCATION PROJECTS

A new exemplary program for the disadvantaged and handicapped has started in Cherokee County. The In-School phrase of the program will provide special projects for the seventh, eighth, and ninth grade students. Hulbert High School will be the first school in Cherokee County. The program is 100% federal financing and is administered by the State Board of Vocational-Technical Education through local school boards.

This program will be attempting to reach slow learners, potential dropouts. and lower I.Q. Boys will be taught general mechanics, small engine repair, small appliance repair, weeding, rough carpentry, plumbing, electrical wiring, roofing, painting, and masonry.

Girls will be taught food preparation, sewing, and nursing care. Each group will range from 16–24 students. The program will provide funds to employ one vocational teacher.

Nurses Aid program has started in Tahlequah and CSTE Coordinator has arranged for classrooms and storage. Fourteen persons have completed the course and twelve persons are attending now.

The FHA and the Cherokee Tribal Housing have been rapidly increasing in building low cost housing in Cherokee County. Two hundred new homes have been contracted for this county. Twenty are located in Hulbert and the rest south of Tahlequah.

CONCERTED SERVICES IN TRAINING AND EDUCATION IN WEST VIRGINIA

Quarterly report for July, August, September

MDTA: Enrollees (cumulative)	10
Adult basic education:	
Enrollees	65
WIN enrollees	14
Operation mainstream: Enrollees	60
NYC in-school: Enrollees	104
Headstart: Enrollees	180
Foster grandparent: Enrollees (cumulative)	21
Vocational education:	
Secondary enrollees (Wood County)	1, 898
Vocational adult education	316
Post secondary	34

VOCATIONAL EDUCATION

Vocational school for Jackson and Roane Counties has been approved. The CSTE Office is serving in an Advisory capacity to the Lay Advisory Committee for a Vocational School for the counties of Pleasants-Tyler and Ritchie. A Service-Business-Industrial Survey was conducted by CSTE to provide data on skill needs for the proposal and we have provided various other information necessary for the proposal. A rough draft is presently being prepared and will be presented at the next Advisory Meeting Scheduled for October 27, 1971. The CSTE Office utilized several students in Pleasants county to conduct the Service-Business-Industrial Survey with a contribution of $250 from West Central Community Action for Postage. We had approximately a 25% return.

The following indicates the work that has been done during this quarter:

Determine over-all goals and objectives.
Complete translation of Industrial-Business-Service employment needs.
Complete projections of potential new industries.
Determine Vocational Education needs to broad circular areas.
Completed population trends.
Determined occupational growth areas.
Development of course description.
Complete data collection.
Write rough draft of proposal.

Meeting was held in Grantsville (Calhoun County) with representatives from Gilmer County Board of Education, Calhoun County Board of Education, Representative from West Virginia University and the CSTE Office to discuss means of constructing a multi-county Vocational School. Presently work is being done to encourage Wirt County to participate with Gilmer and Calhoun. Another meeting will be scheduled as soon as a commitment has been made from each Board of Education.

RURAL DEVELOPMENT COMMITTEES

The CSTE Office is continuing to attend Mountaineers for Rural Progress in this area. One of the most important concerns throughout the area is the lack of an adequate Solid Waste Management System. Presently the committees are discussing the possibility of a Regional System whereby the cost for each county would be reduced and also would result in the possibility of demonstration funds. These committees are continuing to pursue solutions to the problem areas established at their origin.

Four counties (Wood, Pleasants, Jackson and Roane) participated in a two-day MRP Workshop in Roane County. This workshop was held to discuss methods of making MRP a more effective Rural Development Committee.

Since Vocational Education has been established as a problem area for the Wood County MRP the Service-Business-Industrial Survey was also conducted in Wood County in conjunction with the Pleasants-Tyler-Ritchie County survey. The results of this survey will be used by the Vocational Education Sub-Committee to analyze and begin types of post-secondary courses most relevant to this area.

SMALLER COMMUNITIES PROGRAM

The Smaller Communities Program is tentatively scheduled to enter Tyler County in February 1972, after Survey has been completed in Webster County.

SEWAGE SYSTEM

The Town of Elizabeth (Wirt County) is currently attempting to obtain funds for a Sewage System. The City Council has given approval to hire a consultant to update present Sewage Plan. The CSTE Office has updated the Wirt County OEDP to possibly secure funds through EDA.

YOUTH CAMP

An underprivileged youth camp was conducted for 110 youth in Calhoun County.

Work is being done with Extension Staff of Wood County to secure funds for youth camp for next summer.

EMPLOYMENT SECURITY ACTIVITIES

Job Placements—328.

PHYSICIAN IN RESIDENCE PROGRAM

Contacts were made in Calhoun County with Physicians regarding Physician in Residence Program. The Physician has requested a specialist from the Medical Center from West Virginia University to consult with him.

EMERGENCY EMPLOYMENT PROGRAM

Wood County has been allotted $485,000 through the Emergency Employment Act. This allotment has given the county 87 new jobs.

Coordinator, Calhoun County CAA Director and School Superintendent prepared proposal for 32 slots under the EEA. These jobs would be distributed in the City Council, County Court, Board of Education, Community Action, and Department of Welfare. The total proposed project was approximately $150,000.

LPN TRAINING

Meeting was held with representatives from CSTE, Parkersburg Community College and Regional Medical Program to discuss possibility of beginning an LPN Course in Calhoun County. This meeting resulted from effort of Hospital Administrator at Calhoun County who determined that State Licensing Board would not approve such a course because of the size of the Hospital. However, a meeting is scheduled in October to work out means of establishing the course through the Parkersburg Community College and be held in Grantsville.

CAMPS

Part A of CAMPS Plan was submitted to State Committee in September.

QUARTERLY REPORT FOR JULY, AUGUST, SEPTEMBER, 1971—
MUSSELSHELL COUNTY, MONT.

Mushroom Mine.—Preliminary drawings have been completed of the exterior buildings. At the present time, the preincorporate steps are being taken.

Soil Survey.—This office has submitted a narrative to the Employment Security Commission requesting eight soil survey persons and a master planner for the eight county South Central Montana Development Federation. It is hoped that this may be accomplished under the Emergency Employment Act. If this can be arranged, it should be possible to complete the much needed soil survey in the eight county area within a two year period.

Employment.—Thanks to the full cooperation of the Employment Security Commission, our city and county slots under the Emergency Employment Act have been filled and operative for the past month.

Small Community survey.—Copies of this survey were mailed the first week of September. Having worked all summer with the two WICHE interns in the office, we do miss them now. Evidently Concerted Services made an impression on them. One of them plans to change her major to, and the other plans a minor in, community development.

South Central Montana Development Federation.—This Federation is to be the sounding board of public opinion in reference to the alternative proposals for Wilderness Areas in the Absaroka-Beartooth areas. The Custer National Forest has requested that we hold meetings in our respective counties, then meet on October 29th for a Federation consensus. These local inputs are needed by Custer National Forest by November 1.

Clarence Nybo of the Employment Security Commission spoke to Federation representatives concerning our area as he sees it, with emphasis on human resources. He explained the Emergency Employment Act and its implications for the counties in our Federation area.

A request was made to the Extension Service for an extended Dry Land Wheat Fertilization Study and also for a soil fertilization program with test plots in our eight county area for both dry land and irrigated grass land.

South Central Montana Weed Advisory Council.—This ten county council, formed largely through the efforts of this Concerted Services office, has done a fine job in its first six months. Thanks to appointments arranged by the Interdepartmental Task Force in Washington last April, Dr. Clyde Hurst was directed to visit Yellowstone Park for the purpose of finding a solution to the Dalmation Toadflax infestation which is threatening drainage areas in the Council's area. We expect a report on this the end of October.

Planning and Zoning.—This office arranged and chaired meeting for the purpose of establishing county wide planning in Musselshell County. County Commissioners of both Musselshell and Golden Valley Counties, City Council representatives, a State representative and member of the State Planning Commission were present. As a result, County Commissioners of Musselshell County passed a resolution to establish county wide planning; a hearing has been held and we are now awaiting the passage of the sixty day period for registering a protest by petition. If none is forthcoming, this county could be the first in the State to institute county wide planning.

Proposals.—In an effort to meet a November 1 deadline, this coordinator arranged meetings between architects and engineers of two firms with the City Council and trustees of this school district to draft three vital proposals. We shall be working very hard the month of October to try to complete these proposals, and solve the problems of financing. This will mean the involvement of lay committees.

Miscellaneous.—This coordinator was appointed by the Governor as a member of the newly structured Montana CAMPS, Area V. Also, I was made a director of the Musselshell Valley Chamber of Commerce.

Assisted Golden Valley County delegation with incorporating procedures so that it can qualify for S.B.A. loans.

Have had a number of meetings with the new Mental Health Representative for Musselshell County to assist him in getting established here.

Spoke before the State Rural Area Development Committee in Bozeman to explain Concerted Services.

As a result of the Federation's efforts, over 150 persons from throughout the eight county area appeared for the annual meeting of the South Central Montana Regional Health Council.

Working with the Employment Security Commission, a training program is being initiated for mill operators at the new elevator in town.

RALPH GILDROY, *Coordinator.*

ILLINOIS QUARTERLY REPORT—SEPTEMBER 30, 1971

COOPERATIVE EXTENSION SERVICE—KISHWAUKEE RESOURCE DEVELOPMENT CENTER

(July–September, 1971, Highlights)

Two things stand out as significant in the past quarter in terms of their effect on the total area. One is the Building Our American Communities program (B.O.A.C.) being carried on by many of the FFA chapters in our area. Our office met with 20 of the area vocational agriculture department instructors and chapter FFA officers to discuss and promote the program. The new B.O.A.C. film was shown and we discussed various ways local chapters could become involved in their local communities. Our office will continue to work with these chapters.

The second major highlite was the completion of the Kishwaukee Area Manpower Survey. Although the final document is not yet available, we are encouraged by the large amount of excellent data which was collected, and confident it will lead to a number of important benefits in the Kishwaukee area in terms of manpower, education, community services, etc.

CONCERTED SERVICES IN TRAINING AND EDUCATION

QUARTERLY REPORT FOR JULY, AUGUST, AND SEPTEMBER, 1971, AND CUMULATIVE REPORT FROM AUG. 10, 1970, THROUGH SEPT. 30, 1971, WEST KENTUCKY CONCERTED SERVICES PROJECT, LYON, LIVINGSTON, AND TRIGG COUNTIES, KY.

	July 1, 1971, to Sept. 30, 1971	Cumulative
MDTA:		
Number of projects approved	1	3
Number approved for training	1	49
Vocational education classes—Trade extension:		
Enrolled	62	104
Number of classes	3	5
Other training and education projects:		
Enrolled	17	115
Classes	1	4

CSTE QUARTERLY REPORT—WESTERN KENTUCKY, SEPTEMBER 30, 1971

ACTIVITIES

Mid-management in Recreation—Hopkinsville Community College

During this quarter, a great deal has been accomplished concerning this program. Meetings of concerned individuals began in early July. Since the first meeting, the program has been initiated and all phases of our plan of action have been accomplished with the exception of securing funds for a program coordinator. Our application for funds did not make application deadlines with the Office of Education in Washington, D.C. The advisory committee agreed to continue efforts in this program and to initiate classes this fall at the college in hopes that funds can be secured for the second year of the two-year program. The advisory committee feels that the success of the first year will offer ample justification in securing funds.

Emergency Employment Act

Lyon County became eligible for $67,200 under sections 5 and 6 of this Act during this quarter. Coordinator met with the county judge, city mayors, fiscal court members, and city councilmen to determine how these funds could best be used in the county. The final decision was as follows:

Two (2) deputy sheriffs @ $6,000 each per year.
Two (2) radio operators @ $4,000 each per year.
Two (2) county maintenance personnel @ $4,000 each per year.
One (1) land fill employee @ $4,000 per year.
Two (2) County utilities employees @ $4,000 each per year.
One (1) county library aide @ $4,000 per year.
One (1) city administrative officer @ $4,000 per year.
One (1) county secretary @ $3,600 per year.
One (1) county program director @ $9,200 per year.

A total of 13 employees and total salaries of $60,800, plus $6,080 benefits.

Adult vocational education extension classes

Three classes were established during the quarter in the C.S.T.E. area. They were:

Beginning airconditioning and electricity in Livingston County with 16 enrolled.
Beginning shorthand in Lyon County with 25 enrolled.
Beginning typing in Lyon County with 21 enrolled.

Other classes are presently being considered in Trigg County with the intentions of beginning them in early November. Classes being considered are: Bookkeeping and Advanced Typing.

Kuttawa Water Department

An environmental aide is presently working with the City of Kuttawa Water Department. The aide is being provided to the City through an On Job Training slot through the Madisonville Area Vocational School and the Department of Labor. The City hopes to employ the aide upon completion of the OJT as the superintendent of the water system.

County Case conference

Coordinator has been appointed as moderator for the Lyon County Human Resources Committee that will meet monthly to review special cases for Lyon County. Coordinator, with the assistance of Mrs. Thompson, Bureau of Public Assistance, compiled a list of various resource people in Lyon County to serve as members of the committee and has invited those prospective committeemen to the first case conference to be held in the CSTE Office on October 11th.

Handicap program—Trigg County

Investigations to locate funds to begin a workshop for the handicapped group in Triggs County. Contacts have been made with Mr. Wallace, Vocational Rehabilitation Office in Bowling Green, and with Mr. East, Director, Pennyroyal Industries, Princeton, concerning this program but nothing concrete has been established to date.

Pennyrile area development district

A coordinator has been employed by the Pennyrile Area Development District to head-up the Human Resources Committee. I have closely worked with Jim Daniels, Coordinator, in proposal preparations for the Pennyrile Area Development District in the past few weeks concerning the Emergency Employment Act. A Human Resources Committee has been formed for the Pennyrile Area Development District and our first meeting is tentatively scheduled for October 27.

CONCERTED SERVICES IN TRAINING & EDUCATION

ATKINSON, BACON, PIERCE, WARE COUNTIES, GA.

(Quarterly report for July, August, September, 1971)

Forestry project

Meeting held in CSTE Office to discuss and plan for site preparation and setting of seedlings on cut over timber lands in CSTE area of Bacon, Pierce, Atkinson, and Ware Counties.

Those present for the meeting were: Mr. Harvey Johnson, Bacon County Extension Agent; Mr. Bob Dodson, US Forest Service, Regional; Mr. Archie McEuen, Registered Forester, SPAPDC; Mr. Gus York, SPAPDC; Mr. Westley

Hartley, District Forester; Mr. James Reed, Area Forester; Mr. Kelly Sweat, Bacon County Forest Ranger.

Next meeting was held in Waycross with twenty five present. Mr. Archie McEuen, a registered forester from Slash Pine Area Planning and Development Commission, appointed a committee to work with appropriate agencies and private industry to reforest cut over timber lands of small farmers. Coordinator is on committee.

Health delivery services

Mr. Sam Register, Health Planner, Southeast Georgia Health District, and Coordinator traveled to Medical College in Augusta to discuss health problems of Atkinson County.

Attended meeting in Bill Smith's office of CAA with representatives of Georgia Regional Medical program and Georgia Health concerning Health Delivery Services to rural areas.

Coordinator met with citizens and Community Action Committee in Pearson to find a solution to ambulance service and the possibility of securing a doctor for Atkinson County. Also discussed health personnel that was assigned to rural areas as of October 1, 1971.

Secretarial course

A total of 19 students enrolled with 13 students completing the course. This course was funded through Waycross-Ware Tech and was taught by a retired high school teacher.

Land survey and math course

A total of 12 students enrolled with two being transferred because of inability to keep up with math requirements. Classes being held at Waycross-Ware Tech with a registered surveyor as instructor.

Trip to CSTE area, Forrest City, Ark.

General discussion of CSTE activities. Visited vocational school, OEO, cashier-checker, housing project, factories, Green-thumb, IIIB, sheltered workshop, mental health clinic, F.H.A., vegetable marketing shed, Tucker Prison Vocational Program.

Sewing machine operators

Classes being taught at Oxford Plant in Alma. Waycross-Ware Tech sponsoring training program. This is a continuous program with new classes being taught every two weeks.

New plant opens in Willacoochee

H & H sportswear opened in Willacoochee in an old theater building and has expanded to 40 employees in 45 days. Coordinator is working with Ted Whitten, Industrial Coordinator of Waycross-Ware Tech, to set up training program.

Emergency Employment Act

Governor's Office has designated $42,466 to Slash Pine Area Planning and Development Commission for employment in the eight county area. (1) Atkinson County requested $4,950 for a motor grader operator (2) Bacon County $4,750 for a Recreation Leader (3) Pierce County $3,700 for a Deputy Sheriff and (4) Ware County $4,083 for Assistant Recreation Director.

IIE student

Alfredo Garcia, an International Institute of Education student, has returned to his studies at Abraham Baldwin Agricultural College. Alfredo is from Honduras and has been working on a farm in Bacon County for the summer to get a better understanding of farm life in the United States.

Airport

Bids received for improvement on Bacon County Airport. This would include extension of runway to 5,000 feet and would accommodate small executive jet aircraft making it convenient to the 200 acre Industrial Park.

Water and sewage

Willacoochee has made application to Farmers Home Administration for water and sewage. Ninety percent of property owners have signed for this project.

CONCERTED SERVICES IN TRAINING AND EDUCATION RED RIVER COUNTY, TEX.

QUARTERLY REPORT FOR JULY, AUGUST, SEPTEMBER, 1971

	Quarterly	Cumulative
Adult basic education: Total enrollees	0	37
New York City in-school:		
Total enrollees	0	18
New York City, summer	30	30
New York City out-of-school: Total enrollees	0	1
Headstart:		
Total enrollees	25	50
Special summer Headstart (Avery)	18	18
Job Corps: Total enrollees	2	5
Vocational rehabilitation: Total enrollees	46	46
Employment Commission activities Red River County:		
Number of orders closed	36	59
Number of openings	52	95
Number of placements	43	76
Canceled openings	9	9
Number of referrals	82	82
New applications	45	85
Employer contacts	72	72

PROJECTS WORKING IN COUNTY

Clarksville Water and Sewerage Expansion.
Clarksville Public Housing Expansion Project.
Red River County Hospital Expansion Program.
Red River County Clarksville Airport.
Clarksville Industrial Street Expansion.
Avery Sewerage System.
Bogata Water Expansion Project.
Adult Basic Education Classes and GED.
NYC Program.
Expansion of Detroit Public Housing Project.
FM Road 1701 Construction.
4-H Swine Program.
Community Improvement Program.
Marketing System (Contract Growing) for Vegetable Growers.
Beef Cattle Improvement Program.
Tomato Research Program.
Intensified Small Farmers Program.
Clothing and Personal Development Program.
Vegetable Preparation and Use Project.
Money Management Workshop for low income families.
4-H Food and Nutrition.
4-H Home Improvement.
Red River County Fair.
Recreational Workshops and Projects.
Homemakers Conference for low income families (Commodity Food Preparation).
Insect Control Program.
CAMPS.
410 Rural Water System.
Detroit Water and Sewerage Expansion.

PROPOSED PROJECTS AND PROGRAMS

State Highway 37 By-pass at Clarksville.
Multi-county Solid Waste Disposal System.
Langford Lake Recreation Area.
Construction of new County Jail.
Acquiring of additional land area for County office building expansion.
Establishment of County Historical Museum.
Improve tourism through historical site renovation and better access to sites.
Establish numbering system for County roads.
Completely renovate District Court Room.
Expand Avery Public Housing.
Create Public Housing in Annona.
Establish recreation areas in Avery, Bogata and Detroit.

Nabs Jobs.
NYC out-of-school slots.
Green Thumb Program.
County Community Center (Agricultural Improvement Association).
Training Schools for handicapped and mentally retarded.
Continue Industrial Development.
Expand ABE.
Construction of new high school—Detroit Independent School District.
Construction of new school—Avery Independent School District.
Employment Survey of County.

SOIL CONSERVATION SERVICE

	Number	Acres
New district cooperators of record	7	
Do.		1,939
Cooperators receiving technical assistance	147	
Technical services	209	
Cooperators applying practices	107	
Conservation plans prepared	6	
Do.		1,269
Conservation plans revised	7	
Inventories and evaluations prepared	4	
Assistance on resource planning	7	
Units of government assisted	6	
Information provided for resource planning	3	
Referrals serviced	42	
Noncommercial recreational development	10	
Brush control		2,430
Conservation cropping system		396
Contour farming		35
Crop residue management		189
Ponds	35	
Fencing		99,886
Fishpond management	10	
Grassed waterways or outlets		12
Pasture and Hay land management		2,529
Pasture and Hay land planting		2,402
Proper grazing use		188
Access roads		9,380
Wildlife area management		393
Land adequately treated		2,307
Cropland converted to grassland		1,136

FHA—Farmers Home Administration

Loans approved:	
Initial rural housing	11
Subsequent rural housing	1
Rural rental housing	1
Initial operating loans	2
Subsequent operating loans	4
Farm ownership loans	3
Soil and water loans	2

Red River County commodity food program

Served past quarter:	
Households	3,094
Individuals	8,065
Cumulative:	
Households	6,406
Individuals	16,802

CONCERTED SERVICES IN TRAINING & EDUCATION

BUTLER, SEWARD, SALINE COUNTIES, OCTOBER 4, 1971

(Monthly Report for September, 1971)

Training and education

On September 2, 1971, Coordinator hosted a meeting held at Educational Service Unit #6 in Milford. In attendance were the School Superintendents of the area to hear a presentation by Dr. Leonard Hill, State of Nebraska Adult

Basic Education administrator. Dr. Hill reported that, due to lack of staff and time, that he could not approve any new applications for ABE, but would approve expansions of existing projects to include those who were interested under the auspices of an existing program. Representatives from areas with existing programs agreed to talk with interested schools.

Coordinator was asked to make a presentation on "What the Rural Employers Need and Want from the Employment Service" to a regional meeting of Employment Service representatives from a four-state area. Kal Mackela, Kansas City regional office; Don Christensen, Nebraska Department of Labor; Martin Kenny, Farmers Union; and the Coordinator, were on a panel that discussed the topic.

Economic development

Coordinator is still working with the Seward Industrial Development corporation, Jones National Bank, Cattle National Bank, Small Business Administration and the Business Development Corporation of Nebraska in putting together a package attractive enough to entice a Kansas City based concern to the Seward area. Many informal meetings and telephone calls have occurred and a formal meeting was held in the SBA offices in Omaha on September 21, 1971, with representatives of the above-named groups and the Coordinator.

Attended a meeting of the Saline County Economic Development Commission on September 22. Poor attendance has resulted in a discouraged atmosphere.

Coordinator pointed out the positive accomplishments of the group, suggested they needed new plan of work, asked them to be the sponsoring group for distribution and pick up of the upcoming Survey, suggested that perhaps this might give them some idea of the areas that the people thought should have some attention. They agreed to sponsor the survey and use it as a basis for future planning.

Flood and water retention

Last month's report included an account of a meeting to discuss alternative solutions to the problems of flooding and irrigation along the Big Blue River. As a result of that meeting and conversations afterward, this office did a survey of all of the people who had attended any of the meetings at which the problems were discussed, in order to ascertain what the people thought should be the next step in this continuing effort. A letter giving background was accompanied by a self-addressed postcard. Preliminary returns indicate most people giving support to a formally organized group effort.

Housing

Largely due to the efforts of this office, the Seward Housing Authority resubmitted its application for 75 units of low-income elderly housing to the HUD Area Office in Omaha. Coordinator helped the Authority interpret and fill out the forms, which had been returned for up-dating and re-evaluation.

As a result of the publicity received from doing the above, Coordinator was contacted by the city of Beaver Crossing about checking into the status of their application. Coordinator called Omaha only to find out that Beaver Crossing had been flatly refused.

Pollution

Coordinator was asked by Dr. Philip Heckman, President of Doane College, to attend a dinner honoring Dr. Robert Rienow of the State University of New York at Albany, and keynote speaker at a Pollution Symposium at Doane College on September 28. Coordinator has agreed to serve as a Workshop Leader for the symposium, having already been extensively involved in the planning stages.

Health

Coordinator attended the monthly Seward County Mental Health Association meeting on September 27, and gave a report on the progress that is being made in procuring a copy of a forthcoming manual on available state and federal programs for mental health. Correspondence, and conversation with Bill Joern, assistant director of the Southeast Nebraska Health Planning Council, reveals that the booklet is about two months behind schedule.

Representatives of the Seward Industrial Development Corporation (developers of the Seward Nursing Home) came to the office to solicit Coordinator's advice on matters facing them.

Tourism

Coordinator has had correspondence with John Rosenow, Director of Tourism, Nebraska Department of Economic Development, about an idea presented at the Vision–17 planning meeting in Lincoln last month. The idea is to contact farmers who would be interested in hosting urban families on their working farms for a day, weekend or week. Mr. Rosenow contacted the office for ideas, names and suggestions. The reply outlined the program as we see it and offered Butler, Seward, and Saline Counties as a pilot project area. Also called USDA for information on similar programs in other states.

Community improvement

Coordinator furnished information to Mrs. Jean Kolterman, chairman of the Community Improvement Program for Seward. Mrs. Kolterman needed information concerning availability of labor and representative wages from the Seward area, which we were readily able to furnish.

CONCERTED SERVICES IN TRAINING AND EDUCATION, SKOWHEGAN AREA, MAINE

HIGHLIGHTS AND SUMMARY, SEPTEMBER 1971

Emergency Employment Act

The biggest involvement for me in the month was with the EEA. All told, the CSTE office was involved in 12 proposals, 5 of which we wrote for the small town governments after they had identified their needs. These were subsequently funded, and the total is $47,233.38 which includes 11 new jobs. We were indirectly involved (by providing research and information in another 6 proposals). There has been no official notification of funding on some of these as yet, but potentially we approximate another $52,900 or 13 new jobs within the CSTE area. I can go into a great deal of detail describing individual proposals and would at the request of other coordinators. Almost exclusively, all the positions funded under the EEA were nonprofessional.

Elementary and Secondary Education Act

CSTE was informed by the local school administrator that they had been notified and requested to submit a Title III proposal. They asked us if we could become involved with them in this and suggest possible steps. We advised that we would be happy to provide research and secretariat skills in proposal development. At my suggestion, a committee of community citizens also formed to identify the area for which a Title III proposal would be written. The Commission agreed upon an innovative Fine Arts Program for the local school administrative district which now has virtually no Fine Arts Program. We met with this committee twice and with the help of the local Assistant Superintendent of Schools compiled the committee's findings, wrote, and submitted the proposal.

Skowhegan Industrial Growth Committee

CSTE was approached by a local small group of citizens who were extremely concerned about the critical situation in the Skowhegan area of unemployment. (Present unemployment figures show 13.9 percent unemployed). They felt this was due in a large part to the cutback over the past 3 years in the shoe industry. At my suggestion, they put together a Blue Ribbon Committee consisting of 7 leading people to approach this problem, possibly identify solutions. CSTE will provide secretariat and research skills. We will bring in experts in the field of economic development to meet with this committee.

Visit of Department of Labor Personnel

I spent an excellent afternoon with Ray Welch, MESC; Frank Shea, Boston regional Department of Labor office; and Pete Patridge, Department of Labor, Washington, discussing the CSTE project in Skowhegan, what I had personally been involved with in the past 2 months, and I attempted to predict future involvements. I received some excellent suggestions from all of these gentlemen concerning people who could help me, and ways to approach some problems. I plan on visiting Ray Welch and Frank Shea very soon in their respective offices. The third member of the group, Peter Patridge, at my invitation spent the next few days with me. He literally did what I did for 3 days including a staff meeting, the meeting drafting the final proposal for Title III, and notifying local towns of the pending new EEA money. I appreciated both his insights and the references he left with me to help solve some of my problems.

Redington-Fairview hospital training proposal

This project is in its very initial stages. We have identified 3 areas which nonprofessional people could be trained for and potentially fill in the new wing at the hospital. Those three areas are (1) ward secretaries, (2) specialized hospital housekeeping, (3) specialized hospital cooking. Research to date shows that there is apparently little MDTA money available at this time. The wing is not scheduled to open until the summer of 1972; and so we are talking about short training courses, the matter is not all that pressing. However, it does give me a chance to become acquainted with the MDTA coordinator in Augusta and better informed myself about MDTA.

Mary Donovan Holland school for the mentally retarded

As mentioned in my daily reports, I have had two meetings with the director of the local school for the mentally retarded. He indicated to me that his staff is not sufficient to meet the demands of the area or his present pupils. I am going to help him look for additional funding, and think we have gotten him a secretary's slot out of current EEA money.

SUMMARY

The past month has been the busiest yet of our fledgling CSTE project in Somerset County. I am beginning to see the results of the previous month's activities in the area and at least some of the local community citizens are no longer asking "What is CSTE?" I am faced with a small problem in that area. How do I get the community to realize what CSTE is and what CSTE is doing and still stay very low profile?

Another area of immediate interest to me is this formulation of a permanent advisory committee for my CSTE project. I discussed this with my administrative supervisor in Augusta, and we would like to try, at least on a pilot basis, another approach to this problem. Rather than have one CSTE advisory committee to address anything that I as the coordinator might be dealing with, we will have a different committee of community citizens to address each different problem that the CSTE coordinator might be working on. For example, the Skowhegan Industrial Growth Committee to face the critical unemployment problem or the Title III community committee who helped identify and wrote the Fine Arts Proposal under Title III of ESEA. These committees by nature would be terminal and would dissolve when the individual problem that they were facing was solved.

I have been told of the possible availability of a community VISTA volunteer slot from my office. Am going to research this thoroughly and may acquire this VISTA. The only reservation I have is that this VISTA be a particular kind of person who could fit within the profile we are trying to estaiblish for CSTE herein the lower Somerset County.

CONCERTED SERVICES IN TRAINING AND EDUCATION—OAKLAND, MD.,
OCTOBER 28, 1971

CSTE QUARTERLY REPORT FOR JULY, AUGUST AND SEPTEMBER 1971

Familiarization

A large share of the quarter was spent in becoming familiar with the job. A major portion of the time was spent operating out of temporary quarters. The permanent office site was not occupied until the last of September.

CAMPS activities

One meeting of the CAMPS Committee was held to explain the new committee makeup. The feeling was expressed that there will probably be less local involvement under the new structure. Coordinator has been invited to attend the next regional CAMPS meeting.

Community action

Coordinator made many contacts with local Community Action Committee. This group is very active with Head Start, Opertaion Mainstream, Community and Head Start Aides, Emergency Food, Housing, and is making efforts to establish a Community Coordinated Child Care project in the County.

Employment service

Maryland State Employment Service has been very helpful in contributing information and statistics, as well as guidance for the Coordinator's activities. This office is sponsoring MDTA and OJT projects in the County.

County municipalities

The Coordinator has been invited to speak at Mayor and Town Council meetings at several towns in the County. The CSTE program was explained with emphasis being placed on how the program could be of service to the individual communities.

Garrett Planning Commission and Development Corp.

These groups have become quite active and the Coordinator has been apprised of all their functions. CSTE was invited to submit questions to be used in a county-wide survey being conducted jointly by these organizations.

Health

The Health Planning Council of Appalachian Maryland, which includes Garrett County, has been active for only a year, but has been quite influential in this period. Among the accomplishments this quarter have been grants for a sanitary landfill and for a county health officer who will be administering a primary health care program in the County.

Community action:	
Head Start enrollees (year-round)	51
Head Start staff	16
Neighborhood workers	5
Operation mainstream	58
MDTA:	
Bausch and Lomb	20
Auto body and mechanics	20
Licensed practical nurses	5
OJT	75
Vocational rehabilitation	6
Neighborhood Youth Corps:	
Summer in-school	189
In-school	30
Out-of-school	10
Emergency Employment Act: County road system	1
Cooperative extension service: Nutrition aides	6

INTERDEPARTMENTAL TASK FORCE ON CONCERTED SERVICES IN TRAINING AND EDUCATION IN RURAL AREAS

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Moton Baill, Chief, Division of Manpower Training, Office of Technical Assistance, Economic Development Administration, Department of Commerce, Washington, D.C.

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Melvin Rottenberg, Manpower Specialist, Appalachian Regional Commission, Washington, D.C.

Francis C. DeLucia, Senior Program Officer, Office of State and Local Management Assistance, Department of Housing and Urban Development, Washington, D.C.

CSTE LOCAL COORDINATORS

Eastern Arkansas

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Batesville Area, Arkansas

James Smith, Concerted Services in Training and Education, Room 3, Barnett Building, Post Office Box 356, Batesville, Ark.

Sandoval County, N. Mex.

Henry A. Gonzales, Concerted Services in Training and Education, Post Office Box 717, Bernalillo, N. Mex.

San Miguel County, N. Mex.

Henry Brito, Concerted Services in Training and Education, 223 South Plaza, Las Vegas, N. Mex.

West Central Minnesota

Sherman Mandt, Jared M. Smalley, Concerted Services in Training and Education, 306 Jefferson Street South, Wadena, Minn.

Parkersburg Area, West Virginia

Larry A. McCallister, Concerted Services in Training and Education, Parkersburg Community College, Route 5, Box 167–A, Parkersburg, W. Va.

McCurtain County, Okla.

Edwin G. O'Day, Concerted Services in Training and Education, Box G, Idabel, Okla.

Cherokee County, Okla.

Bob J. Ausmus, Concerted Services in Training and Education, 705 East Downing, Tahlequah, Okla.

Musselshell County, Mont.

Ralph Gildroy, Jr., Concerted Services in Training and Education, Box 302, Roundup, Mont.

DeKalb Area, Illinois

Porter J. Martin, Resource Development Center, Kishwaukee College, Alternate 30 and Malta Blacktop, Malta, Ill.

Southwest Kentucky

Robert D. Hogan, Concerted Services in Training and Education, Post Office Box 207, Kuttawa, Ky.

South Georgia

Allen E. Bower, Concerted Services in Training and Education, Post Office Box 378, Alma, Ga.

Red River County, Tex.

J. Mac Varley, Concerted Services in Training and Education, 101 North Locust, Clarksville, Tex.

Nebraska (Butler, Saline, and Seward Counties)

James Childe, Concerted Services in Training and Education, 740 Seward Street, Seward, Nebr.

Skowhegan Area, Maine

Stephen G. Ranslow, Concerted Services in Training and Education, 50 Water Street, Room 9, Skowhegan, Maine

Garrett County, Md.

William B. Stemple, Concerted Services in Training and Education, Garrett County Court House, Post Office Box 215, Oakland, Md.

LEADERS OF OTHER CSTE-TYPE PROJECTS

Southeast Nebraska Community Action Council, Inc.

George Drake, Economic Development Manager, Post Office Box 196, Humboldt, Nebr.

Blue Valley Community Action, Inc.

Frank MacKnight, Director of Economic Development, Room 202, First National Bank Building, Fairbury, Nebr.

Vision–17, Inc.

George Frye, 5555 "O" Street, Lincoln, Nebr.

Community Action Programs, Standing Rock Sioux Tribe

Beeman Dockrey, Manpower Development Director, Fort Yates, N. Dak.

Concerted Services in Training and Education in Small Towns and Rural Areas

INTERDEPARTMENTAL TASK FORCE ON CONCERTED SERVICES IN TRAINING AND EDUCATION IN RURAL AREAS—JULY 1, 1971

> *Discrimination prohibited.*—Title VI of the Civil Rights Act of 1964 states: "No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance." Therefore, any program or activity receiving Federal financial assistance must be operated in compliance with this law.

COOPERATING FEDERAL AGENCIES

U.S. Department of Health, Education, and Welfare
U.S. Department of Agriculture
U.S. Department of Labor
U.S. Department of the Interior
U.S. Department of Commerce
U.S. Department of Housing and Urban Development
The Office of Economic Opportunity
Regional Commissions

Concerted Services in Training and Education (CSTE) is a cooperative Federal, State and local venture. It was conceived as a pilot effort to improve smaller communities and rural areas by demonstrating that education and occupational training, in conjunction with economic development activities, can significantly increase employment opportunities; and that educational and occupational training efforts, with local involvement, will develop local leadership, individual dignity and initiative, and community awareness.

CSTE pilot projects are now underway in fourteen States: Arkansas, Minnesota, New Mexico, Oklahoma, West Virginia, Kentucky, Illinois, Georgia, Montana, Texas, Nebraska, Maryland, Maine and Arizona. These projects consolidate the combined resources of appropriate Federal, State, and local agencies to meet the occupational training and related education needs of the residents in small towns and rural areas. Cooperation among local, State and Federal leaders is the key to the outstanding results being achieved.

This program grew out of an effort to help rural areas, which started with Executive Order No. 10847, issued in 1959, and continued under Executive Orders 11122 and 11307. The Cabinet-level Rural Development Committee, established under Executive Order 11122, May 1964, recommended that an Interdepartmental Task Force be organized to explore the feasibility of developing CSTE projects in three selected rural areas.

The 18-member Interdepartmental Task Force representing as many different education and training programs, is drawn from the Departments of Health, Education, and Welfare; Labor; Agriculture; Commerce; Interior; and Housing and Urban Development; the Office of Economic Opportunity; and the Regional Commissions. A major function of this group is to plan and coordinate CSTE pilot projects at the Federal level.

In its early meetings, the Task Force recognized the urgent needs of rural people for more education and training. It was especially concerned about the 3 million rural residents who had less than 5 years of schooling, the approximately 19 million who had not completed high school, and the fact that only about half as many eligible rural youth, as compared to urban youth, were going to college. Although some progress was being made in getting rural residents to participate in the newly established education and manpower training programs, the proportion of rural participation was still less than half that in urban areas.

The Governors of the selected States were asked by the Secretary of Agriculture, as Chairman of the Rural Development Committee, if they would be interested in participating in joint Concerted Services in Training and Education projects. The responses were favorable. A small task force, representing the Federal agencies from the national and regional offices, met separately with a State committee appointed by the Governor in each participating State. Following these meetings, the State committees recommended the counties that should be selected for CSTE projects. A small group of representatives from Federal and State agencies met with area and county leaders to discuss local interest in participating in a Concerted Services project.

Participating States and areas are as follows:

Arkansas.—St. Francis, Cross, Lee, and Woodruff Counties.
Minnesota.—Wadens, Todd, Otter Tail, and Hubbard Counties.
New Mexico.—Sandoval and San Miguel Counties.
Oklahoma.—McCurtain and Cherokee Counties.
West Virginia.—Parkersburg area, Region III.
Kentucky.—Livingston, Lyon, and Trigg Counties.
Illinois.—DeKalb area.
Montana.—Roundap area.
Georgia.—Bacon, Pierce, and Atkinson Counties.
Texas.—Red River County
Nebraska.—Seward, Saline, and Butler Counties.
Maryland.—Garrett County.
Maine.—Skowhegan Area.
Arizona.

The present Co-Chairman of the Interdepartmental Task Force are John S. McCauley, Manpower Administration, U.S. Department of Labor, and Sherrill D. McMillen, Office of Education, U.S. Department of Health, Education, and Welfare (HEW). C. B. Gilliland, Extension Service, U.S. Department of Agriculture, is Executive Secretary. These three constitute an Executive Committee at the Federal level for carrying out the CSTE program.

Funds for the salaries and secretarial and travel expenses of the coordinators in Arkansas, Georgia, Maine, Maryland, Montana, Nebraska and Oklahoma are made available by the U.S. Department of Labor through the State Employment Service; in Minnesota, New Mexico, Texas and Arizona by the U.S. Department of Health, Education, and Welfare through the State Division of Vocational and Technical Education; in West Virginia by the Appalachian Regional Commission and the State Division of Vocational and Technical Education; in Kentucky by the Tennessee Valley Authority, the State Division of Vocational and Technical Education, and the Cooperative Extension Service; and in Illinois by the USDA through the Cooperative Extension Service. The costs have averaged about $25,000 per area. No separate appropriation has been requested to operate these pilot projects.

The coordinators are local residents, well trained, with a good knowledge of the people and their problems, and an ability to work well with people. They have varied background experience—public education, vocational education, agricultural extension, manpower utilization, journalism, and community development. The Washington liaison between the coordinators and the participating agencies is supplied by the U.S. Department of Agriculture.

To acquaint the local coordinators with Federal education and training programs, semi-annual conferences are held in which representatives of the cooperating Federal agencies participate. In addition, meetings are held with program administrators and staff members of the U.S. Departments of Agriculture; Labor; HEW; Interior; Commerce; and HUD; Office of Economic Opportunity; and Regional Commissions. Federal personnel have participated in planning meetings in each area with local coordinators, lay leaders, and program representatives involved.

In pilot areas a Manpower Inventory is made (usually by Smaller Communities Survey teams, SES). Data are gathered on training interests, needs, and job opportunities to provide a factual basis for full development of the CSTE program. Training projects relating to the more obvious needs of each area may be developed before the survey is completed. The ongoing programs of the Manpower Administration (Labor), Office of Education (HEW), and the Office of Economic Opportunity (OEO) provide the training to meet the more critical needs.

Cooperative efforts have resulted in new vocational education facilities; work-experience programs; adult basic education classes; occupational training in many different fields such as electronics, printing, practical nursing, operating engineer, farmer-general; VISTA programs; Neighborhood Youth Corps; and new recreational facilities.

These pilot projects in the various States have more than twice as many participants from the rural areas in new training and education programs as there were before the pilot effort, so as there are now in adjacent rural counties. In the three original pilot areas, enrollments in special education and training programs have exceeded 30,000.

Although little publicity has been given to achievements under these projects, several States have learned about the CSTE efforts and have requested pilot programs in their States.

An independent evaluation of the Concerted Services approach has been made by the Center for Occupational Education at North Carolina State University, Raleigh. The Center found that training opportunities were made available where none had previously existed, a fuller utilization was made of the services available through the public employment service, valuable information and consulting services were provided local leaders, and additional job opportunities were developed. The Director of this CSTE evaluation stated that "this project (CSTE) is long on ideas and dedication of personnel, low on cost, with benefits that appear to be highly promising."

INTERDEPARTMENTAL TASK FORCE ON CONCERTED SERVICES IN TRAINING AND EDUCATION IN RURAL AREAS

Members

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Local coordinators of pilot areas

Coordinator:	*Location*
Dwayne N. Couchman; Bill D. Starling	Arkansas
Sherman Mandt; Jared Smalley	Minnesota
Henry A. Gonzales; Henry Brito	New Mexico
Edwin G. O'Day; Bobby J. Ausmus	Oklahoma
Larry A. McCallister	West Virginia
Robert D. Hogan	Kentucky
Porter J. Martin	Illinois
Ralph Gildroy	Montana
Allen Bower	Georgia
James Childe	Nebraska
J. Mac Varley	Texas
Wm. B. Stemple	Maryland
Stephen G. Ranslow	Maine

WORKING WITH SMALL FARMERS

Prepared for the Small Farmer Advisory Committee of Todd, Otter Tail, and Wadena counties by Concerted Services In Training and Education as sponsored by the Manpower Development and Training Act through the Agricultural Extension Service, University of Minnesota, in cooperation with the U.S. Department of Agriculture, the vocational divisions of the Minnesota State Department of Education and the U.S. Department of Health, Education, and Welfare, and the U.S. Department of Labor.

INTRODUCTION

The survival of the small farmer in Todd, Otter Tail, and Wadena counties depends on the commitment of resources by a wide range of private enterprises and government agencies. Without the full cooperation of all those involved in the future of the rural community, the job cannot be accomplished.

Agencies are being requested and encouraged to carry on expanded programs with small farmers of the area. Such government programs will do a great deal, but there is need for increased dedication by the agri-business community.

The business community may ask, "What's in it for us?" "Will it really pay to put additional work and resources into the small farmer?"

To maintain a viable community we must have people. Keeping as many small farmers as possible will help provide a good population base and maintain a high potential for helping meet the increasing demands on agricultural commodities as the population of this nation and the world continues to increase at a rapid rate.

Admittedly, some small farmers will quit farming for a variety of reasons. However, we must consider that large corporate farms may not be community oriented. They can buy fertilizer, seed, feed, gasoline, machinery, and other commodities on a large scale, wholesale basis and bypass local dealers. This also could happen in the finance field. In addition, fewer farm families require fewer merchants to serve them.

ALTERNATIVES

The small farmer helps support local businessmen now, and he could be even more valuable in the future if he was provided with financial and educational assistance to improve his economic unit.

Therefore, it is important for the three-county area to devise methods to help the small farmer survive the years ahead, or he may be faced with the following alternatives:

1. Leave the farm for a job in a metropolitan area.
2. Seek local part-time or full-time employment (if available).
3. Become a welfare recipient.

What does helping the small farmers means to bankers, businessmen, employers, government units, the professionals?

1. A stable number of customers in the local community.
2. Continued support of area churches, schools, organizations.
3. Customers with increased disposable income that would be circulated and multiplied many times within the community.
4. Increased valuation of smaller farms to aid local tax base.

DOLLARS AND CENTS

Any new money brought into the rural community has the potential of being recirculated from three to seven times within the area. This multiplying effect on dollars could increase spending in the three counties.

If the small farmers of Todd, Otter Tail, and Wadena counties could be provided with the financial and educational assistance needed to operate profitably in the years ahead, then more new money would be created for use in the area.

For example, in the three counties of Todd, Otter Tail and Wadena, there are 10,747 family farm operations. Of this total about 3,500 are considered low income family farms. Many of these units could disappear under severe economic pressure if they do not get financial and educational help.

However, let's assume that one half of the low income operators (1,750 families) could survive with assistance, and increase their net income by $2,000 per farm for a yearly total of $3,500,000 in the three counties.

This new money would help raise their standard of living, and the additional money generated through increased expenditures by purchases of gas, repairs, lumber, machinery, and other supplies would be multiplied several times within the area. ($3,500,000 × 3 = $10,500,000 per year.)

ACTION COMMITTEES

In studying the small farm situation of Todd, Otter Tail, and Wadena counties, it has been noted that many of these operators will be forced off their farm during the decade of the 1970's if special efforts in financial assistance and technical education are not undertaken to improve small farm management and develop better farm units.

Action committees working on the problems of the small farmer have gathered information that supports the following generalizations:

1. The small farmer has nearly as large a farm as the average farmer, however, he is working less cropland.
2. The small farmer has less adequate farm buildings and needs more financial assistance than the average farmer to make farm changes.
3. The small farmer has more need for farm management training than the average farmer on a 1 to 1 basis to farm economically.

Low farm prices and a rapidly expanding technology have added greatly to the small farmer's problems. Farm prices involve national policy and are beyond the scope of this discussion. The immediate needs of the small farmer are for a form of risk guaranteed loans to encourage private lenders to assist him more in the years ahead, and for intensive on-the-farm training.

In the next few pages, let's look at some recommendations for financial and educational assistance for the small farmer of the area, review four categories of small farmers identified by the action groups, and study some of the statistics concerning his situation in Todd, Otter Tail, and Wadena counties.

EDUCATION

Many of the small farms in Todd, Otter Tail, and Wadena counties have gross incomes under $15,000 and show a definite need for an intensified farm planning program to help them become better managers.

Suggestions for on-the-farm training include the following:

a. Hiring non-professional program aides through the Agricultural Extension Service to work on an individual basis to help small farm operators learn new farming techniques and improve local farms.

b. Employing adult agricultural instructors by school districts to work with organized classes of low-income farmers, coupled with manpower training allowances under the Manpower Development Training Act (MDTA) and participation by lending agencies to set up a profitable farm enterprise. Veterans' agricultural classes may also be established.

c. Developing marketing cooperatives through experimental assistance programs. Implement dealers could organize machinery rental and custom work services.

d. More use of vocational-technical schools to teach skills related to farming needs, including welding and carpentry.

e. Development of regular newsletter for small farmers providing education on a variety of topics through Rural Electric Co-operative system.

f. Use of concentrated farm management courses with hours taught on basis of type of farm enterprise and ability levels of various small farmers.

g. Area banks and lending institutions could employ small farm advisers to assist with financial planning and expenditures of funds.

h. Periodic meetings of agencies and agribusiness people in the area to discuss problems and opportunities for the small farmer and to plan joint action.

FINANCIAL HELP

Because of the large capital requirements needed for expansion of the small farm operation and high start-up costs for a young farmer, a guaranteed loan program is needed to reduce the risk by private lenders and encourage more loans by them.

Under the present financing system, Farmer's Home Administration requirements make it difficult for the small farmer to obtain money; Production Credit Associations and Federal Land Banks have a surplus of money to invest, but are restricted by equity, down-payment and risk requirements of their stockholders which tend to limit loans to small farm operators; and local banks are most often making short-term credit loans of 85 percent on market value of cattle, 50 percent on machinery, and 75 percent on real estate.

Many small farmers in Todd, Otter Tail, and Wadena counties could make needed improvements and necessary expansion of their farm operations if financial assistance could be brought to bear on the technological aspects of farming.

One method of financial assistance would be a guaranteed loan fund that could be used to insure up to 90 percent of a private loan with a maximum of $25,000 per small farmer. For each million dollars in the proposed fund, several million dollars worth of guarantees could be extended to private lenders in the three-county area.

Other funds are needed to form a revolving credit fund to meet the down-payment requirements for short term chattel mortgages on cattle, machinery, and operating expenses of the small farmer. As the loans are paid back into the fund, new loans could be made.

Small farmers could also use larger government payments for carrying on such changes as pasture renovation, brush control, liming, fertilizing, and seeding.

A guaranteed annual wage should be made available for those small farmers who have obstacles to becoming profitable operators because of age, health, or lack of local employment opportunities.

Young farmer

A. His problems—
   (1) Lack of funds;
   (2) Lack of management; and
   (3) Lack of education and up-to-date information.
B. Possible solutions—
   (1) Reappraisal of credit terms and conditions;
   (2) Dairy cow herd suggested as best enterprise for the area;
   (3) Reinstatment of Economic Opportunity Loans through Farmers Home Administration and support of Office of Economic Opportunity rural development projects;
   (4) Provision of machinery rental and custom work services by implement dealers to reduce amount of capital needed for ownership;
   (5) Concentrated farm management course with more hours taught by type of farm enterprise and ability levels;
   (6) Better land utilization; and
   (7) Newsletter for small farmer by Rural Electric Cooperative and improved information services by business agencies and agribusinesses.

35–50 years old

A. His problems—
   (1) Lack of funds;
   (2) Lack of management;
   (3) Need for educational programs (technology has moved too fast); and
   (4) Lack of information on programs.
B. Possible solutions—
   (1) Reappraisal of credit terms and conditions;
   (2) Dairy cow herd suggested as best enterprise for the area;
   (3) Specialty crops and special enterprises for some operations;
   (4) Reinstatement of Economic Opportunity Loans through Farmers Home Administration and support of Office of Economic Opportunity rural development projects;
   (5) Part-time jobs;
   (6) Management training;
   (7) Provision of machinery rental and custom work services by implement dealers to reduce amount of capital needed for ownership;
   (8) Education; and
   (9) Newsletter for small farmer by Rural Electric Cooperative.

55 and over

A. His problems—
   (1) Lack of funds;
   (2) Lack of information on programs;
   (3) Education assistance; and
   (4) Lack of job opportunities.
B. Possible solutions—
   (1) Do not encourage over expansion;
   (2) Increase government assistance through Agricultural Stabilization and Conservation Service;
   (3) Reinstatement of Economic Opportunity Loans through Farmers Home Administration and support of Office of Economic Opportunity rural development projects;
   (4) Specialty crops and special enterprises for some operations;
   Improved information services by government agencies and agribusiness;
   (6) Provide skilled manual training in crafts;
   (7) Employment through projects like Green Thumb; and
   (8) Guaranteed annual wage for those unable to farm profitably because of age, health, or lack of local employment opportunities.

LIMITED INITIATIVE—ANY AGE GROUP

A. Problems—

- (1) Handicaps physical and mental;
- (2) Lack of education;
- (3) Lack of resources;
- (4) Need reorganization of arm; and
- (5) Limited abilities.

B. Possible solutions—

- (1) Assistance must come from personal contact;
- (2) Counseling service;
- (3) Rehabilitation;
- (4) Employment opportunities;
- (5) Education;
- (6) Low interest loans;
- (7) Workable small farm agricultural conservation practice through Agricultural Stabilization and Conservation Service; and
- (8) Reinstatement of Economic Opportunity Loans through Farmers Home Administration and support of Office of Economic Opportunity rural development projects.

FACTS ABOUT PEOPLE

County	1970 population	1966 percent of low-income families	1970 unemployment rate	1968 cash farm income
Todd	22, 114	30. 5	6. 0	$29, 457, 000
Otter Tail	46, 097	25. 7	5. 3	54, 290, 000
Wadena	12, 412	29. 0	6. 5	10, 596, 000

Note: Population: 1970 Census of Population, U.S. Department of Commerce, Bureau of the Census, Minneapolis division. Low income: Community Profile, Office of Economic Opportunity, Information Center, Washington, D.C. Unemployment: U.S. Department of Labor, Bureau of Labor Statistics and Manpower Administration, Washington, D.C. Cash income: Minnesota Agricultural Statistics 1970, Crop and Livestock Reporting Service, U.S. Department of Agriculture and Minnesota Department of Agriculture.

OFFICE OF ECONOMIC OPPORTUNITY COMMUNITY PROFILE FROM INFORMATION CENTER SHOWED FOLLOWING DISTRIBUTION OF POOR FAMILIES IN 1960

County	Total number of families	Number of families on farm operations	Number of poor families in county	Percent of poor families on farm
Todd	5, 754	2, 943	2, 237	60. 8
Otter Tail	12, 038	5, 215	3, 649	53. 1
Wadena	2, 955	1, 108	986	45. 5

FHCTS ON FARMS

CASH FARM INCOME: CROPS, LIVESTOCK, GOVERNMENT PAYMENTS FOR 1968 [1]

County	Crops	Livestock	Government payments	Total
Todd	$1, 414, 000	$26, 795, 000	$1, 248, 000	$29, 457, 000
Otter Tail	6, 934, 000	44, 693, 000	2, 663, 000	54, 290, 000
Wadena	371, 000	9, 680, 000	545, 000	10, 596, 000

NUMBER OF FARMS, LAND IN FARMS, PEOPLE LIVING ON FARMS DURING 1968 STATE CENSUS[1]

County	Number of farms[2]	Land in farms	People living on farms
Todd	3,400	448,964	9,794
Otter Tail	5,847	971,313	15,627
Wadena	1,500	183,692	3,180

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[1] From: Minnesota Agricultural Statistics 1970, Crop and Livestock, Reporting Service, U.S. Department of Agriculture and Minnesota Department of Agriculture.

[2] From: Todd, Otter Tail, and Wadena County agricultural stabilization and conservation offices.

ADVISORY GROUP

The following persons have participated in the Small Farmer Advisory Committee meetings for Todd, Otter Tail, and Wadena counties held during the spring of 1971. This group discussed the problems of the small farmer and suggested possible approaches to education and financial assistance to help him.

Mr. and Mrs. Carl Dykhoff, Route 3, Sebeka—Farm Family.
Cecil B. Fleming, Pelican Rapids—Lake Region Electric Co-op.
Paul Richter, Wadena—Todd-Wadena Electric Co-op Manager.
Dayton Jacobson, Perham—East Otter Tail ASCS Country Executive Director.
Sherman Mandt, Wardena—Concerted Services.
Nick Weyrens, Fergus Falls—County Extension Agent.
Leslie Bradbury, Vergas-Farmer.
Paul R. Schroeder, Fergus Falls—Department of Manpower Services.
Mickey Lawson, Wadena—Northern Co-op Inc.
Lennen R. Naley, Staples—Area Vocational Technical School.
Roy W. Isaacson, New York Mills—Otter Tail-Wadena Community Action Director
Sharon Sorenson, Menahga—CAP Outreach Worker (Youth).
Roger Burgau, New York Mills—CAP Farm Developer Director
Russ Jacobson, New York Mills—Farmers & Merchants State Bank.
Jerome C. Graba, Sebeka—ASCS Committeeman.
Paul Kersten, Underwood—CAP Farm Development.
Howard Legried, New York Mills—Veterinarian.
Merlin Jennings, Wadena—SCS Conservationist.
Miles Rowe, Wadena—County Extension Agent.
Thorval Johnson, Wadena—Todd-Wadena Electric Co-op.
Betty Cichy, New York Mills—Expanded Nutrition Program Aid.
Marvin Braaten, Bertha—First National Bank
Dale Bishop, New York Mills—Economic Developer Director.
Ardys Restad, Pelican Rapids—Expanded Nutrition Program Aid.
Clarence Peterson, Pelican Rapids—Lake Region Electric Co-op Manager.
Fred Bergsrud, Staples—Irrigation Engineer, Staples Vocational School.
George Uselman, Wadena—Implement Dealer.
Don Ericson, Wadena—FHA Supervisor.
Mr. and Mr. Leo Janu, Frazee—Farm Family.
Hugo Oja, Wadena—Northern Cooperative
Tom Meinhover, New York Mills—CAP Outreach
David Mattila, Wadena—ASCS County Executive Director.

Plans to assist the small farmer are already underway in the Todd, Otter Tail, and Wadena area. Members of the area action committee will be working hard in the months ahead to develop workable programs for financial and educational assistance. Please add your support in whatever way you can.

RURAL DEVELOPMENT

FRIDAY, SEPTEMBER 24, 1971

U.S. SENATE,
SUBCOMMITTEE ON RURAL DEVELOPMENT,
OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9 a.m., in room 324, Old Senate Office Building, Hon. James B. Allen, presiding.

Present: Senator Allen (presiding).

Senator ALLEN. We are delighted to have you come before the committee, Mr. Kleppe. We feel highly honored. We look forward to hearing your testimony. And you may proceed at this time if you will, please.

STATEMENT OF HON. THOMAS S. KLEPPE, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATOR

Mr. KLEPPE. Thank you very much, Mr. Chairman.

I would like to introduce the two gentlemen who are with me. This is our general counsel, Mr. Jack Knebel. And our Director of the Office of Community Development, Mr. Einar Johnson. On Tuesday and Wednesday of this week I was before the Oversight Committee in the House, and I failed to introduce my general counsel, and so I wanted to get that done early in the hearing.

Senator ALLEN. Fine.

Mr. KLEPPE. I have a prepared statement, Mr. Chairman. And because it represents a very terse opinion and view that we have, if you wish for me to read it, that is what I would like to do.

Senator ALLEN. That is fine. And that will give me an opportunity to possibly ask some questions based on that statement.

Mr. KLEPPE. If you wish to interrupt at any time, you may do so.

Senator ALLEN. I will wait until you get through.

Mr. KLEPPE. Mr. Chairman, it is a privilege to participate in the efforts which you and your colleagues are making to find a legislative remedy for the economic maladies now retarding progress in the rural areas of the Nation. This is a project close to my heart, because I come from a section of the country which has a strong interest in such legislation. I know the people there, and I know their problems.

Everybody is aware of the challenge presented to the welfare of the Nation by the poverty prevailing in the urban slums. We talk about it. We worry about it. We are trying to do something about it. And that is as it should be. But we must not let this challenge, formidable though it is, distract us from the poverty and economic stagnation abounding in so much of the rural sector.

In introducing one of the bills (S. 2223) under consideration here today, Mr. Chairman—and I should qualify this, Mr. Chairman, I was referring to Senator Humphrey—you made some observations which deserve repetition. Two-thirds of our substandard housing is in rural America. Nearly 20 million rural homes lack plumbing. Infant mortality in rural areas exceeds the national average. Education and medical facilities in rural areas are tragically inadequate.

A basic source of so much of this trouble is the growing decline in the rural population. In search of better economic opportunities, people are leaving for the cities in large numbers. The resulting loss is particularly grievous because so many of these migrants represent the most promising human material—the young, the talented, the energetic.

To arrest this trend we must revitalize the rural economy and improve living conditions in the countryside. Industry must be brought in to provide jobs and generate satellite retail stores and service establishments. Construction must be undertaken on a vast scale to provide all of the amenities—adequate housing, schools, hospitals, libraries, parks, museums, sewage systems, et cetera.

With these objectives in mind, S. 2223 would establish across the country a permanent system of rural development credit banks, resembling the lending facilities created by the Federal Farm Loan Act of 1916. Under the plan of the bill, most of the capital to finance the operations of the proposed banks would come from private sources. However, authorization would be provided for the appropriation of up to $200 million annually, for a period of not to exceed 10 years, to stimulate the growth of the new banking system.

I am in complete sympathy with the objectives of S. 2223, and I admire the spirit animating its sponsors. On the other hand, I do not feel qualified to decide whether it represents the best possible approach to the economic rehabilitation of rural areas. There is a question in my mind, for example, whether the programs contemplated by the bill should, as proposed, be operated independently of the rehabilitation projects being conducted or sponsored in rural areas by the Economic Development Administration and the Appalachian Regional Commission. It seems that some form of coordination would be desirable. I am hopeful that the hearings will throw light on this aspect of S. 2223.

Let me call your attention, Mr. Chairman, to the role that SBA can and will play, under existing law, to strengthen the small business segment of the rural economy. In one degree or another, of course, all of our credit programs will serve this purpose. Of particular importance, however, are the loans we make to local development companies, pursuant to section 502 of the Small Business Investment Act of 1958, for the benefit of identifiable small business concerns.

The increasing popularity of the 502 program, as it is known, stems from the fact that most small communities cannot obtain from private sources the long-term credit essential to commercial and industrial development. Loans are made by SBA to local development companies for the construction, expansion, or conversion of commercial and industrial facilities, including the acquisition of land, as well as the cost of machinery and equipment. The maximum SBA participation in any one project may not exceed $350,000 for each small business assisted. The maturity of the loans may vary with the type of collateral offered. The maximum term is 25 years plus construction time.

The total cost of projects financed since the inception of the program has exceeded $687 million, of which SBA provided approximately $369 million in direct dollars and in excess of $48 million in loan guarantees. These loans have generated 114,147 new employment opportunities, and maintained (or "saved") 50,234 jobs, at an average job cost or approximately $2,250 in terms of SBA direct dollars loaned. Of the 3,356 businesses assisted, 1,485 were new ventures.

Except for 1970, when funds were unavailable for several months, the volume of 502 loans has increased each year for the past 13 years. It rose from a low of 14 loans, approved in fiscal year 1959, to a high of 560 loans, approved in fiscal year 1971. A total of 3,356 loans have been approved under the 502 program since its inception. Approximately 60 precent of the loans in this total were approved in the past 4 years.

The 502 program permits a local development company to retain title to project assets and to lease facilities to qualified small business concerns. As a landlord, the local develcpment company can provide management assistance to its small tenants and thereby strengthen their operations. In those cases where tenants fail in their business effort, such as in small shopping centers, new tenants can often be substituted. Because of the advantages offered in this type of financing, we anticipate a greater volume of 502 loans in fiscal year 1972.

Aggressive efforts have been made to stimulate participation in 502 loans by the private sector through utilization of the first mortgage loan plan and SBA loan guarantees. This plan permits a lender to participate in the financing of a project and to secure his exposure with a first mortgage on all fixed assets acquired with total project funds. A minimum of Government red tape is involved, and the loan can be consummated substantially on the lender's terms. Moreover, the infusion of SBA direct dollars at 5½ percent interest, on a second mortgage basis, usually reduces the effective interest rate on the total project financing to the prime, or lower than prime, interest rate.

Since the inception of this program in fiscal year 1959, through June 30, 1971, the private sector has invested almost $318 million in local development company projects costing in excess of $687 million. This amounts to approximately 46 percent.

Since inception of the program a majority of all 502 loans has been made in communities of less than 35,000 population. It seems to me, if I might add this, here, that this is an important attribute of the 502 program as we discussed the subject matter of the legislation before this subcommittee.

In fiscal year 1971, 217 projects were financed in communities with a population of 2,500 or less and nearly two-third, or 354 out of 560 loans, were made in communities of 10,000 or less where 15,778 jobs were created or saved. It is interesting to note that SBA gets its biggest return for its direct loan dollars in the very small community of 2,500 or less where the cost per job in Government funds advanced was $1,376 as against $2,952 in communities of more than 50,000.

It takes a great deal of effort to consummate a 502 loan. Sometimes people come to us with an understanding of how the program works and with knowledge of the small business they wish to assist, but more often, it is up to us to visit these communities, to identify leadership and to encourage the organization of a local development company. Sometimes several visits are necessary before all of the elements of a successful project can be brought together.

We feel that this effort, is well worthwhile. We think we can do much more in rural communities and so I have directed our Office of Community Development to set up meetings throughout the country for the purpose, among other things, of bringing this and other SBA programs to rural areas where they are so badly needed. At this time 43 such meetings are scheduled between now and the end of the year.

Mr. Chairman, if you would like a list of those proposed meetings we would be glad to furnish them for the record.

Senator ALLEN. We would be glad to have that. Thank you.

Mr. KLEPPE. Fine.

I have offered our assistance to every Senator and every Congressman who might want to sponsor an economic development program in his own State or district. The response to this offer is most gratifying and I am sure that a considerable number of meetings and conferences will be scheduled where we can tell the 502 story. This activity would result in more loans and more jobs in rural America.

For all these reasons, the 502 program is a promising device. We can and will use it to make a substantial contribution to the rehabilitation of our rural economy.

This completes my statement, Mr. Chairman.

Senator ALLEN. Thank you very much, Mr. Kleppe. We appreciate your statement. And we appreciate your comments concerning S. 2223. And also your comments with respect to the work of SBA and the 502 program.

Certainly it is not the plan or purpose of S. 2223 to take over the work of SBA. There is enough work for the bank and SBA. I feel it is the very firm opinion of members of this committee and of the entire Congress that SBA is doing a very valuable job in providing financial assistance to small businesses, and in no way would this bill interfere with the work of SBA.

I note that you speak of the cooperation that should be maintained with the EDA, and then the regional commission. I might call attention to the fact that on page 47 of the bill it is provided that the bill will work with local development districts organized under the Appalachian Development Act and economic development districts organized under the Economic Development Act of 1965.

Mr. KLEPPE. Mr. Chairman, the basic reason I recited this in here was to call attention to the possibility that there might be duplication of any kind. And you have just commented in that regard.

Senator ALLEN. Actually as to both the bank and SBA, it might well be that if the administration's rural revenue sharing passes, the ground might possibly be cut out from under the EDA and Appalachia also, and those commissions might not be available to work with, other than just the shell of a commission, with no funds.

Mr. Kleppe. That is possible.

Senator Allen. So we want to bear that in mind, I feel sure.

It occurs to me that one difference between the concept of the bank proposed by S. 2223 and SBA is the different approach in getting in private funds. Whereas the bank would sell debentures or other types of securities, SBA draws funds in on the basis of guaranteeing the private capital that is put into the loan. Don't you always have pretty much a shortage of funds in SBA?

Mr. Kleppe. Mr. Chairman, the answer to that is, since I came here, no.

Senator Allen. Is that right?

Mr. Kleppe. That is correct.

Senator Allen. I am glad to hear this. It is news to me.

Mr. Kleppe. When you say funds, I am talking about guarantee authority basically. We are always short of direct funds. The answer to that is "Yes." I thought you were referring to guarantee funds.

Senator Allen. I meant direct funds for the SBA. They give out about the first week, don't they, of the fiscal year?

Mr. Kleppe. Yes. The direct funds are very, very short. But our guarantee authority, which I thought you were referring to, which gives us a great deal of latitude of doing business, takes care of it. And we have got an emergency bill which, you probably recall—you voted on it earlier this spring—raises our guarantee authority to $3.1 billion. We believe that will carry us to the end of this fiscal year. And we have got another bill in to go beyond that. So from that standpoint we are in business. But direct funding, direct outlays, yes, are very short.

Senator Allen. Now, under the 502 program you are making a number of loans in smaller communities.

Mr. Kleppe. Yes.

Senator Allen. Overall how does that stack up, the percentage in what you might call rural areas, and in cities?

Mr. Kleppe. Percentagewise?

I am not so sure that we have got it broken down for you exactly that way.

STATEMENT OF EINAR JOHNSON, DIRECTOR, COMMUNITY DEVELOPMENT, SMALL BUSINESS ADMINISTRATION

Mr. Johnson. If we are talking about 502 loans I can't be exact as a complete breakdown, but in the statement—we have it in the statement. Two-thirds of our loans were made, 502 loans were made in communities with a population of 10,000 or less.

Senator Allen. That is 502. But I am talking about overall.

Mr. Kleppe. No; we do not have a breakdown like that, Mr. Chairman.

Senator Allen. Most of these loans are secured by real estate, are they not?

Mr. Kleppe. You are talking about the 502 loans?

Senator Allen. Yes, sir.

Mr. Kleppe. Would you say "Yes" to that, Einar?

Mr. Johnson. Most of them. However, there are some that are secured by equipment.

Mr. Kleppe. We have a considerable amount of latitude as to what we can do with this 502 loan. And it adapts itself so well to our smaller communities, better than it does the larger communities. And this is why I made such a point of talking about 502 loans in this statement, Mr. Chairman. It is a program that takes developing. It takes time, it takes contacts, it takes people, it takes work. And the results are very, very encouraging when we can put everything together and get some 502 loans on the books.

Senator Allen. How have the local investment companies worked out?

Mr. Kleppe. These development companies?

Senator Allen. Yes.

Mr. Kleppe. Generally they probably—correct me if I am wrong, Einar—but they probably represent the higher caliber loans that we have on our books.

Would you concur that that is generally true?

Mr. Johnson. We have perhaps the lowest delinquency rates in the 502 than we have in any program.

Mr. Kleppe. Any category.

Mr. Johnson. Most of the companies have only one or two projects, but we have some outstanding examples—in Averill, Mass., St. Clair, Mich., St. Charles, Mo., Coos Bay, Oreg., Lincolnton, N.C.—where the local development companies have a great many projects, 10, 15, 25—in fact, there are some towns that have been almost entirely built industrially and commercially by 502 loans, such as Lincolnton, N.C.

Mr. Kleppe. Mr. Chairman, there is something here that we should make sure that you and the committee understand regarding 502. Not only can we make a loan up to $350,000 to the development company, but we can also make individual loans to tenants, as it were, that might go in and develop a part of this development project. We can make each one of them an individual loan, up to $350,000. Oh, SBA in its authority under 502 has a considerable amount of latitude in being able to help finance projects under the economic development aspect of our community program.

Senator Allen. Is your lease guarantee program under 502?

Mr. Kleppe. That is a separate program, but it is under the same statute. And this too is a good developing program for us.

Senator Allen. In the loan participation program where SBA, I believe, can guarantee in some cases up to 90 percent——

Mr. Kleppe. We can go higher. We don't like to. Most of our guarantees are on the basis of guaranteeing 90 percent, and the bank carries the other 10 percent.

Senator Allen. But they have to locate the money?

Mr. Kleppe. We can't go higher; 90 percent is the maximum under 502.

Senator Allen. But the lending institution has to locate the money?

Mr. Kleppe. They put the money up.

Senator Allen. Do you have any idea how many direct loans SBA has on the books now of all kinds?

Mr. Kleppe. Of all kinds, how much we have on the books? Our portfolio?

Senator Allen. Direct loans; yes, sir.

Mr. Kleppe. I am not sure that we brought that with us.

We did $13 million last year, and we did $1½ million the year before. And before that we did very little. We almost got to a point where direct loans went out of business for SBA, up until last year, when we got started back a little bit, and this fiscal year we are going to get back a little more.

We have not got the figure you are asking for.

Senator Allen. How much do you say you did last year?

Mr. Kleppe. In direct loans we did about $13 million total.

Senator Allen. $13 million.

Mr. Kleppe. We did $1,200,000 the year before. These are direct 7(a) loans.

Senator Allen. How much in particpation loans?

Mr. Kleppe. IP loans—we had $90 million for direct and IP's, so we probably did around $75 to $80 million in participation.

Mr. Johnson. That is in SBA funds?

Mr. Kleppe. That is strictly in SBA funds; yes. That was our share.

Senator Allen. In other words, the 90 percent, then, or the 75 to 90 percent?

Mr. Kleppe. Are you talking participation or guarantee? They are different, Mr. Chairman.

Senator Allen. Give me the breakdown on both.

Mr. Kleppe. All right. We did about $13 million in direct 7(a) loans last year. We did about—it would have to be about $75 million in our participation, we call it, the immediate participation.

Senator Allen. Seventy-five percent. That is the liability that you assume under your 75 to 90 percent?

Mr. Kleppe. No; that was $75 million.

Senator Allen. I understand that.

Mr. Kleppe. And that is our share.

Senator Allen. But I am talking about the sliding scale on your guarantee then.

Mr. Kleppe. That is correct. And on our guarantee we did—$730 million, was it?

Mr. Johnson. The whole total of bank participation was over $800 million. But you are correct on the guarantee.

Mr. Kleppe. I think if you put down $700 million that would be it roughly, Mr. Chairman.

Senator Allen. On what, now?

Mr. Kleppe. That we guarantee.

Senator Allen. Is that guaranteeing up to the 90 percent?

Mr. Kleppe. This is how much we guarantee in our exposure for guarantee. And most of it is this 90-percent category.

If you would like those figures exact I will furnish them for the record.

Senator Allen. Yes; we would.

(The information is as follows:)

Fiscal year 1971

	In millions
Direct 7(a) loans	$13.8
SBA share of immediate participation loans	74.7
Loans guaranteed by SBA	737.8
Total bank participation	897.3

Mr. **Kleppe**. But these are in the ball park.

Senator **Allen**. On your participation, what is the percentage on that?

Mr. **Kleppe**. It varies, 75 percent sometimes, and 50 percent sometimes. We vary our participation, depending upon the quality of loan.

Senator **Allen**. Your participation, the figure there is not included in your direct, what you call the direct is where you lend the funds 100 percent. Is that right?

Mr. **Kleppe**. Correct.

Senator **Allen**. And then you have the participation where you lend a portion of the funds?

Mr. **Kleppe**. Correct.

Senator **Allen**. And then you have the guarantee where you guarantee a portion of the loan?

Mr. **Kleppe**. Correct, exactly.

Senator **Allen**. And you think it was 75 million, then, actual participation?

Mr. **Kleppe**. This was SBA's outlay.

Senator **Allen**. Actually, then, that is a direct loan, is it not, in a sense?

Mr. **Kleppe**. In a sense.

Senator **Allen**. You are putting up the money?

Mr. **Kleppe**. In a sense, except for the fact that we have got to get somebody else to help us put up some also. So it is not a direct loan. And the difference is this. The loan that we make directly has got roughly a 5½ percent rate. When you get an IP loan, you have got the bank interest involved. It is higher. So to the borrower it makes a difference.

Senator **Allen**. You would be pretty well out of business, then, without the guarantee program.

Mr. **Kleppe**. This is far and away our leading activity, I should say.

Senator **Allen**. Now, this actually is pretty well similar to FHA, the principle of FHA?

Mr. **Kleppe**. No; FHA has much more direct funds than we have.

Senator **Allen**. They don't have any direct funds. I am talking about the Federal Housing Administration.

Mr. **Kleppe**. No; I was talking about Farm Home. We are in the agriculture committee, so I was thinking about Farm Home. Federal Housing, you are right, it is on that order.

Senator **Allen**. What about your applications? What percentage of your applications do you grant, either on the direct, the participation, or the guarantee?

Mr. **Kleppe**. We don't keep track of those that are declined. We have no real reason to keep track of those, and as a result we don't. We get a lot of applications that are not completely filed because we see something wrong and there is no use to pursue it any further, and we tell the prospective borrower. So we don't keep track of that number. I can't give you a number on that.

Senator **Allen**. You do nothing in the way of locating the lender on your guarantee program, do you?

Mr. **Kleppe**. Locating him?

Senator **Allen**. Yes, sir.

Mr. **Kleppe.** They come in the door, Mr. Chairman. We are deluged with requests.

Oh, the lender? Oh, we help suggest if we can, but that is not our prime objective.

Senator **Allen.** In other words, it is up to the borrower to find the lender that will put up the money?

Mr. **Kleppe.** By and large, correct. We try to be cooperative in this area, but it is not our responsibility. And we do try to direct him to where—or say to him, you find a bank that will give you some money if we guarantee it, and then maybe we can get together.

Senator **Allen.** Isn't the availability of funds here on a guarantee program subject to wide fluctuation, depending on the general availability of money?

Mr. **Kleppe.** Well, it is getting much better all the time. Our cooperation with our finance industry is improving to beat the band. And as a matter of fact, we are expecting maybe that we could get as high as a billion dollars worth of that kind of activity in this fiscal year. The reason, I am sure, is because banks better understand what our objectives are and what we can do and how they can bolster the economy in their own community. And as a result, our cooperation is going up tremendously. We almost doubled last year from the previous year in guarantee activity.

Senator **Allen.** Are you paid a fee for this guarantee; do you get any fee out of it?

Mr. **Kleppe.** Yes.

Senator **Allen.** What sort of charge is there on that?

Mr. **Kleppe.** A quarter of 1 percent, roughly, on the average.

Senator **Allen.** Have you had to pay off on many of these guarantees?

Mr. **Kleppe.** Oh, yes.

Senator **Allen.** A quarter of 1 percent is not taking care of the loss, then?

Mr. **Kleppe.** I should say not. It never was designed to, and I am sure it never will. In our type of business, we take risks, above and beyond that which are bankable. But whether it is the guarantee, Mr. Chairman, or whether it is our own direct loans or participation, we take risks, and our losses are not covered by the fee.

Senator **Allen.** I am not sure if we established your percentage of overall loan participation and guarantee which were made outside of the standard statistical metropolitan areas. Is there any way——

Mr. **Kleppe.** You are talking about our total loans?

Senator **Allen.** Total loans, participation, and guarantee.

Mr. **Kleppe.** I don't think we have it broken down that way, Mr. Chairman. I am sure that we haven't, we have no reason to. We have it by regions, and we have it by districts. But that in itself would not answer the specifics that we could give you here on the 502, for example. We just don't keep it that way.

Senator **Allen.** Do you feel that the SBA program needs beefing up to take care of these credit needs of developing rural America?

Mr. **Kleppe.** I am so well aware of the problems of rural America, having come from the State of North Dakota, and being on the

Agriculture Committee in the House for 4 years, that I don't know how much extra effort it would take in rural America. The credit needs are large; the credit needs are huge. And inflation is a part of that. The cost of getting in business in rural America today for a farmer, as a producer, is vast. The cost of real estate, the cost of production, today is tremendous. So I don't know what it is going to take to fulfill these credit needs. They are great.

Senator **Allen**. Could you make a loan to a municipality that needed a water and sewer system?

Mr. **Kleppe**. No; we are not in that business. We are a small business administration, and we deal with businesses.

Senator **Allen**. I undertand that.

Mr. **Kleppe**. And the reason I made the point that I did of our 502 is because of how we can help a community economically develop their community. They are not agriculturally oriented, because that would be a conflict, that would be duplication, and we do not have legislative authority for that purpose. So our financing benefits are kind of fringe from the standpoint of directly helping a producer get into business and to give him credits.

Senator **Allen**. Give me the 502 top categories of businesses to whom you have made SBA loans or participation loans or guarantees, in what areas, what general areas of business activities?

Mr. **Kleppe**. Manufacturing, retail of all kinds, many in the service industries——

Senator **Allen**. Service of what kind?

Mr. **Kleppe**. All kinds of services.

Senator **Allen**. A drycleaning plant?

Mr. **Kleppe**. Yes; a drycleaning plant. It might be in food services, it might be in janitorial or custodial services, many kinds of services. All kinds of manufacturing, and all kinds of retail outlets. Many of what you might call cut-and-sew operations, what you might call retail establishments and grocery stores, hardware stores—you just about name it, we are invoved in any kind of a busines activity.

Senator **Allen**. What about farm and farm related?

Mr. **Kleppe**. Agriculture business? Well, a hardware store in a farming community is a business. A grocery store in a farming community is a business. And we do make loans to these people as businesses.

Senator **Allen**. What about anything having to do with the operation of a farm itself?

Mr. **Kleppe**. The operation of a farm itself probably would be ineligible. I don't know exactly what you mean. But if you take—let's take a feedlot as an example. Now, this is a farm-related activity. We try very hard to find ways that we can have these feedlot people qualify. So what we try to do is set a percentage of the ownership of this business that is not in the business of raising cattle. But most of the feedlots that we have are scattered out in our State and the State of Texas and others. Most of the owners do raise some cattle. If it is strictly for commercial basis, it obviously would qualify for an SBA loan. In other words, if some men own the feedlot and other men bring in and own the [illegible]attle that are fed out there, that is a commercial operation, tha[illegible]usiness, and we could make them a loan. But if somebody builds a feedlot and he owns 75 percent of the cattle that go into it to be fed out, that is part of his farming operation, and that doesn't qualify. We have a difficult time on some things like fish farms and mushroom farms, trying to identify qualification.

Senator **Allen**. You don't lend in those areas?

Mr. **Kleppe**. We are trying to be very general and very broad, but we have to watch our legislative authority from the standpoint of eligibility.

Senator **Allen**. Now, isn't it possible that SBA could continue its fine work—and I feel very definitely that it is fine work—and that there is a field of operation for a rural development bank as envisioned by S. 2223?

Mr. **Kleppe**. Mr. Chairman—I know you understood my statement—I tried to take the position of agreeing with the concept and the principles and the need. I know them; you know them. I think that that was the intent and the purpose of S. 2223.

Second, I think you recognized also that I tried to call attention to the fact that we ought not to get into a problem of duplication, whether it is SBA, the Appalachian Commission, or what have you. And you have addressed yourself to that in response to it.

Third, I wanted to set forth that part of our activity that fits at least to some degree in fulfilling part of the objectives of S. 2223.

Now, having said that, in those three definitive positions, I think that represents where SBA stands on the question of this legislation.

Senator **Allen**. Well, if such an entity is set up, it would certainly be the policy of SBA to cooperate in every way that it could with such a rural bank.

Mr. **Kleppe**. Sure.

Senator **Allen**. Now, what sort of backlog on loan applications do you have?

Mr. **Kleppe**. Fantastic. And they are growing at a pretty fast rate right now. I can't help but think that part of it is due to the announcement that the President made that the investment tax credi was a recommendaion of his. And of course Congress acted—this is probably the one greatest thing for small business in America in this whole package that the President recommended, is this tax credit. And as a result, this is the indirect activity that comes to SBA. We get loan applications. The demands for expansion and money are great. So we have got backlogs sitting on the desk of every loan officer in SBA that will probably range some place between 30 days and 90 days, if we didn't get another application in. So the demands upon our services and our funding are huge.

Senator **Allen**. It requires you to turn down by necessity many good and sound applications, does it not, when you do get around to considering them?

Mr. **Kleppe**. No.

Senator **Allen**. You don't turn down any good applications?

Mr. **Kleppe**. No. We are in business. We have got some minimum direct funds, but we have got substantial guarantee authority, and if you talk about a loan like that, no, he is not going to get turned down.

Senator **Allen**. In other words, you could say to a man, we approve your application if you can go out and find the money.

Mr. KLEPPE. That is right, you find a bank.

Senator ALLEN. In other words, that is the loan you approve?

Mr. KLEPPE. No, it is not approved at that point. That is our approval, that is our OK that we will furnish the guarantee.

Senator ALLEN. I understand. But you are not putting that in the category of loans turned down—loans that you are unable to make, then, I will say, not turned down?

Mr. KLEPPE. There aren't very many of those that happen. The cooperation that we are receiving from the banking industry today is very good, Mr. Chairman.

Let me just tell you, when I go into any one of our communities I try to have a meeting with the banking people wherever we are located, wherever I go. And I give them a charge, as it were, because I used to be a banker, and I know what their responsibilities are. They have got to look at that figure at the bottom of the page. That is profit. That is not the main objective that I have to look at as the Administrator of SBA, it is a different game, it is a Federal Agency, we are trying to perform a service and an assistance. So I say to this banker, you really can't afford not to use us. You really need to use us and our guarantee authority to build and strengthen the economy of your communities. There isn't one other Federal program that gives you the multiplier effect on your economy that ours will give you. So you need to use us as a catalyst to build on. And this works, Mr. Chairman. And I am convinced of the fact that we have got banks participating in loans today with our guarantee that just a short time ago, like a year or two ago, probably, wouldn't do it. So we don't have many of these people that have been turned down because they can't get funding by virtue of having our guarantee authority behind them—it is a lot less than it used to be, at any rate.

Senator ALLEN. As I understand it, you do not make strictly farm loans?

Mr. KLEPPE. No, we can't.

Senator ALLEN. You cannot make loans to municipalities to provide community services?

Mr. KLEPPE. No.

Senator ALLEN. So in those two areas you cannot be helpful to the rural economy.

Mr. KLEPPE. That is correct.

Senator ALLEN. By the way, I might say that I feel that you have a very fine office there in our home State of Alabama.

Mr. KLEPPE. I have had a chance to stop in there and see that office, and the spirit down there is great.

Senator ALLEN. Mr. Paul Bronson does an outstanding job. He is a credit to SBA and to the Federal Government.

Mr. KLEPPE. Thank you.

By the way, the spirit in Birmingham when I was there was really something.

Senator ALLEN. Yes, they are on the move.

Mr. KLEPPE. This was in a live city, I found out.

Senator ALLEN. Now, I am sure, being from a rural State yourself, you feel that problems of rural America and the necessity to develop rural America have a definite bearing on the problems of our urban areas, and that a solution of some of the problems in rural America would have a vey definite helpful, constructive effect on solving the problems of urban America.

Mr. **Kleppe.** I stand in agreement with that statement, Mr. Chairman, because that is substantially what I tried to say in here.

Senator **Allen.** I was more or less recapitulating.

Mr. **Kleppe.** Correct.

Senator **Allen.** Well, are you offering any suggestions to the Congress as to further programs to allow you to meet some of the credit needs of rural America, or are you satisfied to stand on you three areas of operation?

Mr. **Kleppe.** I think, Mr. Chairman, I would have to answer that question by saying that we in SBA would be willing to stand on the areas of legislative authority that exists for us today. We feel that we are well taken care of from the standpoint of legislative authority for us, for the thrust that was designed for SBA. I want again to pay attention to and commend the concept of assisting rural communities, because of what we have reviewed here before. I am hopeful that the hearings will open up all areas that might indicate any duplication whatsoever. You and I know that it is awfully easy to expand our Federal Government above and beyond areas so that they thereby become overlapping. There is a great demand for credit out in rural America today. I am well aware of this. I would only hope that this would be disclosed.

And then as a third point, I do believe that we have got a fringe program, as it were, that does assist in rural America, that does assist, and we are developing it. And I spent a little extra time, probably, in my statement talking about it, because it is a fit, I think, to the question of this hearing.

But I think, Mr. Chairman, that pretty well summarizes our views at SBA regarding the pending legislation in question.

Senator **Allen.** Taking as an assumption your statement and the very definite, well proved fact that there are express credit needs in rural America, that a bank that is operating on the concept of a limited amount of Federal capital, with the thought in mind that the borrower, by purchasing stock in that bank, would eventually become the owner, do you think that a concept of that sort is sound?

Mr. **Kleppe.** I can't deny that I think that concept is basically sound. I think we have had some experience with that.

Senator **Allen.** Hasn't it worked that way in the farm credit system?

Mr. **Kleppe.** I think the concept is basically sound, yes sir.

Senator **Allen.** Now, with the eventual pumping in of $2 billion, that would be the basis of going into the money market and selling possibly up to $40 billion in debentures or other evidences of indebtedness. Do you feel that there is enough need in rural America—and this would be over a 10-year period, the pumping in of the Government money—do you feel that that amount of money could be wisely, judiciously lent for the purpose of developing rural America?

Mr. **Kleppe.** Mr. Chairman, if I said yes to that it would sound like I was endorsing S. 2223, and I did not come up here prepared to openly endorse S. 2223. I would add to whatever I said before, however; that the availability to us and others of secondary markets—pensions, trust funds, State funds, and what have you—again in our operation in SBA we are doing something to try to develop these funds to thereby shore up bank funds directly for the purpose of building the economy in a given community whether it is small business or agriculture. So I think this is an area also that can well be considered from the standpoint of easing it, other than just a flat $2 billion over a period of 10 years from the Federal Government. That might be another possibility to explore.

Senator Allen. Wouldn't it be a sound approach to get this money into the bank for the purpose of lending, and then irrespective of the ups and downs of the money market, and the availability or nonavailability of money, and the necessity to continue to sell your guarantee program to the banks, to get that money into the bank through the sale of debentures, and thereby avoid the uncertainties of the money market, could that be a sound approach?

Mr. Kleppe. Of course you make a very interesting, sound point, I am convinced. I think we have had some experience with that.

Senator Allen. That is the concept of the bill.

Mr. Kleppe. That certainly is.

Senator Allen. Which you approve of in a general way.

Mr. Kleppe. I think the concept makes sense.

Senator Allen. We hope that it does, yes sir.

Thank you very much. We appreciate your coming up and being with us. You have made a very fine contribution.

Mr. Mitchell, please.

STATEMENT OF GEORGE W. MITCHELL, MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Mitchell. I am Mr. George W. Mitchell. And this is Emanuel Melichar.

Mr. Chairman, I have a relatively brief statement, and if you don't object, I think it would be easier for me to read it. And I think it covers the ground thoroughly.

Senator Allen. We appreciate your coming up, Mr. Mitchell and Mr. Melichar. And I look forward to hearing your testimony and being given the benefit of your views with regard to S. 2223.

Mr. Mitchell. I am pleased to appear today in response to your request that a representative of the Federal Reserve Board discuss the relationships between general monetary policy and expansion of federally sponsored credit programs in rural areas, such as that proposed in S. 2223.

At the outset, I would like to note that the Federal Reserve recognizes a need to accelerate the pace of rural development. It is well known that average personal income of rural residents continues significantly below that of urban dwellers, and that educational, medical, and social service facilities are more limited in rural communities.

Growth in rural job opportunities has for many years fallen far short of providing employment to all the young adults raised in rural areas, and consequently we have been experiencing both massive migration to cities and underemployment of those who chose to remain in the country. The inability of rural communities to provide more of the jobs and the amenities of modern life desired by their young people continues to aggravate the problems being experienced by our larger cities. Thus, we are all well advised to devote some of our energies to improvement of the pace and quality of rural development.

Acceleration of economic development in rural areas encounters problems other than those of adequate and reasonably-priced credit—problems such as lack of nonfarm resources and distance from consumer markets. Case studies of rural communities have concluded that local initiative and leadership play a vital role in successful development in the face of these inherent disadvantages. This element should be recognized in the design of credit programs intended to foster rural development. The credit program can be a catalyst that spurs local action.

One role of a credit program can be to help equalize the access of various economic sectors or areas to the Nation's flow of capital funds. A portion of our national savings, in the form of retained earnings of farm, industrial, and commercial enterprises, is directly employed by the saver, plows this back into the business. Another portion is moved from savers to investment uses in the same community by local banks and other depository institutions. But a substantial portion is gathered by large insurance companies, pension funds, large banks, and like institutions, and is made available to users through national capital and money markets. In these markets, these funds are used to purchase credit instruments offered in sizable blocks by well-known firms and public and private institutions. Smaller users of credit, and those not known nationally, thus are not ordinarily able to compete directly for these funds. They may, however, obtain indirect access either through private arrangements with larger institutions, or through a Federal credit program. A prominent example of the latter route is the federally-sponsored cooperative farm credit system, which lends to farmers those funds that it raises through sale of credit instruments in the national capital markets. The bill you are considering would provide similar federally-sponsored indirect access to capital markets to other rural residents, firms, and governments, probably thereby improving upon such indirect access as these groups may already have achieved through existing private or public arrangements.

The addition of another economic sector—in this case, rural nonfarm business and governments—to those for whom Federal credit programs have already been provided would not, in my opinion, significantly handicap the capability of the Federal Reserve to administer monetary policy. It would, however, affect the distribution of the impact of restrictive policy among sectors, and would tend to increase the cost of funds raised through all Federal credit programs. The significance of these effects would be directly related to the size of the added program.

Distribution of the impact of restrictive monetary policy would be affected because federally sponsored programs have demonstrated their ability to raise substantial amounts of funds even during periods of tight money. But with restrictive policy holding down the overall volume of funds available, the funds raised by an additional Federal program, beyond those that the sector served would have otherwise obtained, must necessarily be balanced by a reduction in funds raised by other sectors. Among the sectors that appear especially vulnerable to this effect are those that do not have access to capital markets.

Although, as just noted, the ability to raise a substantial volume of funds is achieved by access to the market in periods of monetary restraint, the cost of these funds is likely to be rapidly and significantly affected both by policy actions and by economic developments in general.

Rural borrowers from federally sponsored agencies are thus likely to encounter more rapid sizable variations in interest cost than other rural borrowers who are obtaining their loans from typical rural banks. Because rural banks obtain most of their loanable funds through local deposits rather than in money markets, the rates of interest they charge their borrowers have not generally responded rapidly to changes in rates in national markets.

The rural borrowers given market access through a credit program are likely to find funds available during periods of restraint, but probably at a relatively high price. Some may postpone their projects until interest rates fall. In other words, if rural development is stimulated by improving rural access to national capital markets, the degree of stimulus would be related to the prevailing degree of monetary ease or restraint and its effect on interest rate levels.

The impact of likely fluctuations in interest rates may be reduced or eliminated from some borrowers by providing a subsidy such as that proposed in S. 2223. More generally, subsidies may be provided in a Federal credit program as a further stimulus to the activity being promoted. In this event, it is desirable that the element of subsidy be provided in a form that is readily evident and quantifiable, as is done in S. 2223, and that the continued need for and amount of such subsidy be subject to periodic congressional review. On this topic, as well as on the design of Federal credit programs in general, the recommendations made in 1963 by the Committee on Federal Credit Programs (Dillon, Bell, Heller, and Martin) continue to provide sound guidance.

I have mentioned the Federal Reserve interest in rural development. Our studies of regional and agricultural lending indicate that for many years after World War II most rural banks had funds in excess of local loan demands. Some years ago, however, this situation began to change. Banks in many rural areas, such as areas in which the livestock industry has been rapidly expanding, have exhausted accumulations of liquidity and still continue to face loan demands that are increasing faster than their local deposits. To participate better in meeting the credit demands of their communities, rural banks in this position need improved access to nonlocal sources of funds, through development of markets for their assets and liabilities, through banking structure change that would bring the services of larger banks to rural areas, or through improved credit services via correspondent banking, the Federal Intermediate Credit Banks, or the Federal Reserve discount mechanism. Federal Reserve staff work undertaken in the course of our reappraisal of the discount mechanism, and since published, noted in detail and at length the disadvantages faced by small rural banks in attempting to develop nonlocal sources of funds. Consequently, the Board has under consideration a proposal that would expand and routinize the availability of funds at our discount window for the seasonal needs faced by these banks.

As a further outgrowth of that work, a System committee is conducting a program of research into the possibilities afforded by the other sources of nonlocal funds that I have mentioned. Our principal focus in this work is on mechanisms through which rural banks could raise funds in financial markets. These markets presently do not accommodate the small sizes and amounts of securities that each rural bank has to offer. Therefore we are examining ways in which such instruments could be pooled into larger lots, or endorsed by larger banks, or in other ways be made more attractive to investors in central markets. Other phases of the research program are examining; (1) how well correspondent banking relationships are currently functioning in terms of supplying funds to rural banks, (2) the effect that bank branching and holding company activity has had on farm lending by banks in several States where the law has recently permitted such structure changes, and (3) the reasons why the mechanism which permits commercial banks to discount farm loans at Federal Intermediate Credit Banks has not been used to a significant extent. We hope that our studies and findings will be helpful in efforts to maintain the role of rural banks as a credit source for agricultural and other rural development.

Senator ALLEN. Mr. Mitchell, on behalf of the subcommittee and the full committee, I want to express our appreciation to you for coming before the committee and giving us the benefit of your views and giving us this fine testimony regarding the money markets, the role of rural banks, and the problems attendant to meeting the credit needs of rural America. And it does present a considerable problem, as you have pointed out here.

I was interested in the comments about the impact of monetary restraints, which of course would limit the overall amount of money available for all sources. And your discussion, I gathered, was that the lapping up of some of this available credit by a bank as contemplated by S. 2223 might serve the exhausting of some of those available funds. Is that what you are suggesting?

Mr. MITCHELL. In a period of monetary restraint what the Federal Reserve is attempting to do is hold down the total volume of funds employed. What has happened in previous periods is that our markets have remained free to function and to accommodate borrowers who can get into those markets. The rationing device has been price, and this is the way the markets work. But the banking system and the savings and loan system, for example, have been held down in their access to these moneys, because of the structure of their assets or liabilities, or just by rules relating to what they are allowed to pay for their deposits. The arrangement that you are talking about here would give users of credit in rural areas access to these national markets.

Senator ALLEN. That is desirable, isn't it?

Mr. MITCHELL. That is desirable. But rural borrowers would have to be prepared to pay higher prices than they usually pay. And they would have to make a judgment as to whether it was better to go ahead or to defer their expenditures.

Senator **Allen**. Many times a borrower gets into a position where he doesn't worry too much about what it is going to cost him, it is a question of where he can get the principal.

Mr. **Mitchell**. If it is a necessitous situation, he just has to have the funds. But wise borrowers try to avoid getting into that situation.

Senator **Allen**. On the credit restraint and the unavailability of money on the credit reserve, would it not be possible for a bank such as envisioned by this legislation to go into the money market with their credit instruments, their debentures and sell them when money was free and not tight and we were not in a period of monetary restraint imposed by the Federal Reserve Board? They wouldn't have to go in at any particular time, they could wait until the market was favorable before they offered debentures.

Mr. **Mitchell**. Some borrowers do that. I assume that you anticipated use of the proceeds sometime in the future, and not immediately?

Senator **Allen**. Yes, sir.

Mr. **Mitchell**. Borrowers go to the market—and this is what corporations are doing—to improve their liquidity position they anticipate their need for funds and in the interim invest in some kind of a market instrument. Later they can either sell that market instrument, or let it run off, at the time they will need the funds. Yes, that can be done, and is done.

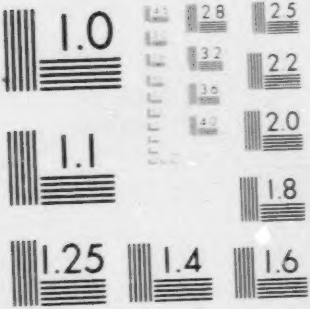
Senator **Allen**. It is quite obvious, and I think it is certainly commendable, that the Federal Reserve Board is giving a great deal of study to the problems of rural banks, and to assisting them with rendering a better service to the rural community. That is certainly fine that you are doing that. This thought occurs to me, though, that the rural banks of necessity, and all banks for that matter, in the main have to lend for short periods, for 90 days, for 6 months, for a year, whereas many of the credit needs of the towns and cities and other rural needs have to be on a long-term basis, and, therefore, they do not turn to the bank even if the funds are available, which they are not.

Mr. **Mitchell**. Some of the larger banks through term loans are making longer period loans, up to 5, 6, 7, and 8 years. But it is pretty difficult for a relatively small bank to do this. I agree with you. The small banker is pretty much tied in to the harvesting cycle or to the feeding cycle, and he has to protect his ability to adjust to those cycles.

Senator **Allen**. Would it be possible for a city or town needing a water system or a sewage system to turn for a long-term loan on its system?

Mr. **Mitchell**. Local community banks perform a very important role here in assisting the municipality in selling its issues and taking the short part of the issue. If it is a serial issue, they might take the first 2 or 3 years of the issue. But the rest has to be sold some place else. The bank may be instrumental and helpful in selling it to the investors in the area. But of course there are other devices, such as national underwriters, who can sell the issues elsewhere.

Senator **Allen**. Well, a small town of two or three thousand people, their bonds wouldn't be rated.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MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS 1963-A

Mr. **Mitchell.** No, they are not rated, but there are agencies and large banks that deal in these small issues. I was concentrating my attention on the role of the small community bank. Even a small community bank can be helpful in making the arrangements and taking the shorter dated maturities. And through its correspondent or other connections with financial facilities and financial experts, it can aid them in marketing their issues. There is a very large market for State and municipal issues. And the banks are very large buyers of these issues, not just locally, but all over the country. And that market is set up in such a way that, while I think that the unrated issue is handicapped, still those issues can be placed. And some of them are extremely attractive, and very safe.

Senator **Allen.** Do you feel that this concept of a bank to meet or assist in meeting the credit needs of rural America, that has the concept of borrowing the money which is needed in addition to the capital that the Government puts into the national money market, and to provide for eventual control of the bank by the borrowers, do you feel that that concept is a sound concept?

Mr. **Mitchell.** Well, in considering this testimony today we have not focused on that issue. What we were thinking about in preparing this testimony was simply whether this device would interfere with the proper administration of monetary policy. Our conclusion is that it would not. There are precedents for it. We have been living with other arrangements of a similar nature, and we can also live with this one. I would have to say on your last question, I just haven't considered it. I think the other thing that I would say that we have considered, and have a settled view on, is that there is a need for some improvement in the financing arrangements for rural areas, for community development, and for business and for farmers in those areas. On that I think we have a kind of settled position. And we have been working on improving our own arrangements and suggesting other arrangements for solving that problem.

Senator **Allen.** This concept, then, might be one of the answers to solving that problem?

Mr. **Mitchell.** Yes, it might very well be.

Senator **Allen.** You state, then, that if this bank is set up, and the bank goes into the national money market for funds by the sale of its credit instruments, that that would be no handicap to the Federal Reserve System in controlling the monetary system of our country?

Mr. **Mitchell.** That is my judgment, yes sir.

Senator **Allen.** I believe I will rest with that answer, Mr. Mitchell.

Mr. **Mitchell.** Well, thank you very much, sir. I enjoyed being here today.

Mr. McHale, please?

Mr. McHale is secretary of agriculture of the Commonwealth of Pennsylvania.

Mr. McHale, we appreciate your coming before the committee to give us the benefit of your views with regard to S. 2223. And we look forward with great interest to your testimony.

And you may proceed, if you will, please.

STATEMENT OF JAMES A. McHALE, SECRETARY, PENNSYLVANIA DEPARTMENT OF AGRICULTURE, HARRISBURG, PA.

Mr. McHALE. Thank you, Senator.

I have presented our written testimony. And I think rather than go through all of it I will give it off the cuff briefly.

Senator ALLEN. All right, sir. And then if you wish the entire statement will be inserted in the record as though given orally at this time.

Mr. McHALE. I am James A. McHale, secretary of agriculture of the Commonwealth of Pennsylvania. We heartily endorse and urge favorable action on S. 2223, the Farm and Rural Development Act. And I am speaking both for Governor Shapp and myself.

And in the back of the testimony we have printed the pamphlets "Farmers of Rural America," and "The Goals of the Department of Agriculture."

Senator ALLEN. We shall see that that is put in the record.

Mr. McHALE. It is printed in the back.

Mr. Chairman, on behalf of Governor Shapp and myself I thank you for the great interest you personally have always taken in rural America and in farmers, small town businessmen, older Americans, and all people living in the disadvantaged areas. And we feel it will give us the real power we need to revitalize and recapitalize rural America.

We are quite concerned in Pennsylvania. The last census showed that we had an out migration from the State of 400,000 people.

Senator ALLEN. That was in what period?

Mr. McHALE. The last 10 years, 1960 to 1970.

Most of the out migration was from the rural areas, about 357,000. And the real alarming part of it was that we were losing the youth between the ages of 16 and 44. We have counties that run as high as 30 percent (in most rural counties it is 20 to 30 percent) of the population who are over 60 years old. They are the people who are left.

Pennsylvania is being depopulated. In rural Pennsylvania, what has happened is that the people have moved into the cities. When they got enough money in the cities to move out, they went to other States, they didn't stay in Pennsylvania. Those trends aren't good for Pennsylvania or rural America either.

We feel very strongly that today's rural problems are tomorrow's urban problems. This didn't happen just in the last few years. The trend of decay and negligence has been going on for a long time.

The Federal farm programs since the thirties have helped in the larger agricultural States, but we don't think they have done the job in Pennsylvania for our kind of farming. So far as I am concerned, it is like putting a Band-Aid on a large wound. We think we must have long-term planning instead of just action on a crisis basis from time to time. We tried in the fifties at the State level to do something about the problems. But the planners at that time seemed to work in the urban areas and really didn't get into the rural problems. Rural America has sent billions of dollars worth of young people to the city. The way the tax setups are made, it has just drained us, so that there is nothing much left in the rural areas.

We have received less for management than anyone else. We received $50 billion less for what we sold, than we paid out for production supply costs, rent, credit, interest, and taxes.

I guess the increase in land prices is the only thing that has really kept the farmer on the land.

We need a large new investment in rural America. We think we need $100 billion in the next 5 years to create jobs and income. We don't think this is spending money, we think it is an investment in the future. We don't think the basic problem is money, we think it is attitude. We think that as long as we can spend billions of dollars doing certain things, like going to the moon, and fighting the war; then we can spend a little bit of money to help revitalize and recapitalize rural America.

We know that your interests are the same as ours. We think the enactment of this bill will go a long way toward rooting out the poverty in the rural areas.

We need improvements in housing and health delivery, education for young people, water and sewer. And we need some kind of a high-speed transportation setup so we can move the people and the products.

We held some poverty hearings in Pennsylvania. I of course have traveled roads for years and know the problems. But we decided to work with some other agencies and hold some other hearings. We held them throughout Pennsylvania. And we got evidence that even I didn't know, as much as I had traveled in the rural areas. We had people come in, and they talked about the sewage systems.

And the sewage system the lady was talking about was an open ditch, with raw sewage running in it. And she said it was plugged. And when we questioned her on how the smell was, she said, on some hot days it got pretty bad. And they have a slum landlord over there. He owned a small town. And he was charging rent from $35 to $75 a month. And he owned the water system. And he charged $7.50 a month for the water. And they brought in samples of the water, and the water was brown instead of the color of this water. And they brought in the filter, the one lady said had been on for 3 days. And she said that filter really didn't tell the story. You really could hardly stand the smell of it. But beyond that she said they had taken out the tadpoles and the green stuff, and one thing and another.

There are some real problems out there that I think we have to get national help on. I think the farmers will have to get more credit. We have to have money available at the same rates as Lockheed and the Pennsylvania Railroad and these other businesses. We have got to have some bargaining power on credit.

The Federal Government needs to put financial muscle behind the statement of national policy of giving highest priorities to the rural development component of balanced rural-urban growth that was adopted last year in title IX of the Agricultural Act of 1970. We pass bills and enact laws, but we just never follow up with money where our mouth is.

We need S. 2223 enacted. And it certainly will give us some breakthrough. I think the entrenched, vested interests have really been calling the shots instead of the people.

Next to the people in Pennsylvania we have the land. We have the most beautiful land in the country, I think. It is a better place for people to live. Beyond that, it is something that really has been almost untapped.

I like the fact that your S. 2223 is structured around the small country banks. You need rural participation, and you need to involve rural people.

I agree with your idea of making the banks active agents in revitalization of rural America. The provision of the bill requiring that board members of the rural development credit banks, the regional banks, and the Federal development credit banks be residents of rural areas, I think that is important.

I think, if we could locate the headquarters in rural areas, that it would be a help.

Rural America has been neglected so long that we have to have a real imaginative, hard-hitting campaign to get anything done. We just can't do it by talking about it.

The needs are great, I realize this. We are only one out of 50 States. But Governor Shapp and I recommend that the U.S. Government subscription of capital in the rural development credit system be increased from the $2 billion provided in the bill to a discretionary $10 billion to be asked if demands for loans requires it.

The authorization for annual subscription of capital stock should be increased from $200 million to $3 billion. It is going to take big money, and it is going to take action if we are going to save a lot of these rural areas.

No rural development effort can succeed if we do not have adequate income for farm families and adequate sources of credit.

What we are really talking about is this: We need a full-time Assistant Secretary of Agricluture for the rural development credit system. I think we need to establish a full-time Presidentially appointed and Senate-confirmed Administrator of the Rural Development Administration.

We can't do it alone, we need a lot of effort put into this.

To sum it up, we strongly endorse S. 2223. We will work with you in any way possible.

(The prepared statement of Mr. McHale follows:)

Mr. Chairman and members of the committee: I am James A. McHale, Secretary of Agriculture of the Comonwealth of Pennsylvania. When I heartily endorse and urge favorable action on S. 2223, the Far and Rural Development Act, I am speaking both for Governor Shapp and for myself.

Mr. Chairman, in behalf of Governor Shapp and myself, I thank you for the great interest you personally have always taken in rural America and in farmers, small town businessmen, older Americans and all people living in the disadvantaged rural areas.

You have a long and distinguished record for serving all Americans, but I thank you especially for the many important contributions you have made to farmers and all of us in rural America.

To paraphrase Mrs. Roosevelt's famous remark: "You are lighting the candle you are not cursing the darkness."

Enactment of this legislation would do more than anything else now on the horizon to recapitalize and revitalize rural Pennsylvania and the countryside of the entire United States.

Mr. Chairman, I suppose that you were as startled as I was to learn, when you had the Director of the Bureau of the Census before your subcommittee, that Pennsylvania had between 1960 and 1970 the largest gross outmigration of population of any State in the Union.

If it had not been for a heavy inmigration of very low income disadvantaged people from the rural South into our largest Pennsylvania cities, the entire State would have shown a very heavy net loss in population resulting from outmigration of unemployed and greatly underemployed people from the rural areas of our State to really far-away cities in the West and Southwest.

More recent statistics indicate that the largest streams of migration in the Nation are from rural areas in Pennsylvania to metropolitan areas in the States of Arizona, California, and Nevada.

The nub of this is: When migrants move to Pennsylvania, they come from rural areas outside of Pennsylvania and move to our lowest income, large city neighborhoods. When people move out of Pennsylvania they are leaving our rural areas for far distant cities outside the State.

Simultaneously within our State, many of those who could afford to have been moving from low-income city areas to the suburbs of those same cities, have not stopped to establish residence in a Pennsylvania suburb but have moved out of the State along with the large numbers of rural outmigrants.

The result has been that Pennsylvania is rapidly becoming a State of depopulated rural areas, slowly growing suburbs, and an increasing population of very low-income, poorly-educated people in our overcrowded inner cities.

I submit, Mr. Chairman, that these trends are not good for Pennsylvania and not good for the United States.

I am not overly familiar with the rural problems in other States, but in Pennsylvania, the adverse trends in our rural areas have stemmed directly from decades of neglect, disregard, and discrimination against farmers and small towns and cities, and their people and institutions.

The Federal farm programs since the early "Thirties" have been tailored mainly to help solve problems in the big agricultural States. I am not saying that the Federal farm programs have not helped in Pennsylvania, because rural Pennsylvania would have been even worse off if we had not had the important income parity and price support programs of milk and other commodities. But what I am saying is that Pennsylvania reached this rural crisis stage much earlier than did most other States, and the Federal farm programs, designed for the typical or average condition throughout the country just were not strong enough medicine to meet the problems of our Pennsylvania farmers.

Simultaneously, we were faced with and endured a long decline in our mining activities that left hundreds of thousands stranded in our small towns and villages without even subsistence farming to tide them over.

In the 1950's, a progressive State government moved to do something about the high chronic level of unemployment in Pennsylvania. This was well-intentioned; and it was effective in our larger middle-sized cities. But those who designed our State's industrial development and re-employment programs proceeded with high moral but uninformed zeal as far as rural areas were concerned. Apparently, the theory was both that rural areas were mainly made up of labor exploiting farmers and that industry would not prosper in rural areas anyway. In any event, the re-employment and industrial development programs were designed for and limited to the cities. And these programs remain so limited to this day. People of rural areas can benefit from leaving the homes of their forebearers.

Rural Pennsylvania with the rest of Rural America has sent $100 billion worth of young people to the cities in each of the last two generations. The independent farmers have sold our production for about $50 billion less than we have paid out for production costs, rent, credit interest, and taxes. The migration out of agriculture in U.S.A. has been about 25 million people in the last 25 to 30 years. The rural problems of the last 25 years are today's urban problems.

We have received less return on our capital investment than any large industry. We have received less for our Management than members of any well-organized Labor Union. I hasten to point out that I am a supporter and a friend of Organized Labor.

Our wives and children have almost always received much less than the legal minimum hourly wage.

Mr. Chairman, I hope that you and the committee are planning to do something which will really help to recapitalize and revitalize Rural America. We need an investment of new money in Rural America in the order of $100 billion in the next five years. I want to emphasize that this will be an investment which will create jobs—income and new wealth worth several hundred billion for the future

We need to *revitalize everything* in Rural America.

I know that as members of the Senate Agriculture Committee, you are all interested in bringing the income of farm and all rural people up to a parity of income and living standards with industry, labor, and the urban professions.

I know that you must be interested in wiping out poverty in Rural America. I know that you are interested in bringing up to decent living standards the more than 50 per cent of America's sub-standard houses which are to be found in Rural America.

We need a new health delivery system in Rural America.

We need a new delivery system for education in Rural America.

We need new water and sewage systems for Rural Americans.

We must have more bargaining power for independent farmers.

We need a high-speed, low-cost mass transportation system for humans, production goods, farm products, livestock and poultry.

In short, we need investment, we need public and private credit. We need a dual yardstick credit system that will give us equal bargaining power in the money market for investment and credit money at the same prime interest rates and investment teams as big business gets. We deserve it more than the Pennsylvania Railroad, the Lockheed Corporation, and the Defense Contract credit extended to America's industries.

I am not at all sure that Pennsylvania can pull itself out of these adverse circumstances on its own steam even with the help of even larger Federal revenue sharing grants that have so far been proposed.

We need the Federal government to really put financial muscle behind the statement of national policy of giving highest priority to the rural development component of balanced rural-urban growth that was adopted last year in Title IX of the Agricultural Act of 1970.

S. 2223, Mr. Chairman, will, we think, in Pennsylvania, give us the progressive impact that we need to break through the entrenched vested interests that are blocking progress in rural Pennsylvania. We recommend and urge your early approval and enactment of S. 2223.

We suggest that the language of the bill or of the Committee report make it clear that mushroom growers and outdoor recreational operators, the largest rural industries in our State, are eligible for both Title I and II. Likewise, I hope that the bill can be amended to insure that the Indians of northern Pennsylvania and elsewhere in the State will not be relegated wholly to the Bureau of Indian Affairs.

While your Committee may wish to tighten up and make more specific some of the broad vague language concerning rural development purposes that S. 2223 picked up and carried over from the President's rural community development proposal, I hope that in rewriting these purposes you will not so restrict the potential benefits of the program that it will not be as fully useful as it might be.

We in the present State Administration do not have any quarrel with the President's rural development purposes and goals. And we feel sure that our Senators, even though they have not co-sponsored S. 2223, are in support of these goals, and probably will not oppose the rural development credit bill. I am not speaking for them, understand: I am merely stating the aspirations I have discovered in countless discussions I have had with rural residents of Pennsylvania from one end of the State to another in several series of rural development meetings that my Department has sponsored.

We are strongly opposed to the cynical view of some urban oriented economists who say that Rural America should be given enough subsidies to die peacefully.

We hold that next to the wonderful people of rural Pennsylvania the greatest asset we have in Pennsylvania is our open space in our beautiful rural countryside. More than 50 per cent of the land in our state is in forests and over 70 per cent of our land is outside of the Standard Metropolitan Statistical Areas.

This is our great natural resource which we must save from being exploited and destroyed. We must preserve and improve this great treasure for the benefit of future generations.

Bills have been introduced in the Commonwealth of Pennsylvania Legislature to provide for rural development through Public Service Employment.

We are preparing a bill for introduction in the legislature which will authorize a $1 billion Rural Development Administration in Pennsylvania. It will be drafted in such a manner that it can provide equity capital for rural recapitalization, new developments and rural small cities where a quality of life can be built for those who live in rural Pennsylvania now and for those who may wish to come to rural Pennsylvania when jobs and Quality Living can be assured.

Mr. Chairman, we support the provisions of S. 2223 that would revitalize and strengthen the existing private structure of small country banks and financial institutions that exist in rural Pennsylvania. If rural development is to be permanent and broadly based, it must, among other goals, strengthen the private credit structure of Countryside, U.S.A.

We applaud your making counties, boroughs, and municipalities active agents in the recapitalization of rural America.

We are pleased, also, to note that you have drafted the language of the bill in such a way that recalcitrant or reactionary local banks and local governments cannot block access of applicants in any area to the financial resources of the institutions provided in Titles I and II. We urge that you retain this provision to give applicants direct access to the District Rural Development Credit Agency in any instance when local governments and banks chose not to become participants or cooperators in the recapitalization of Rural America.

Although our areawide multi-county planning and development districts in Pennsylvania are in a chaotic condition owing to past errors of recent State Administrations, we welcome your utilization of these agencies in the Rural Development Credit System because we think that your initiative in this matter will help us in Pennsylvania to clear up and straighten out our confused and chaotic situation in this regard.

In planning to abolish the State Planning Commission and reshuffling the planning and development districts set up in the State, Governor Shapp does not move from a basic animosity to the planning process or from opposition to the idea of the broader rural community. Rather, his purpose is to wipe the slate clean of the encrustations of years of spider-webbed vested interests whose major purpose seemed to be to block rather than to promote progress.

The key role given in S. 2223 to areawide general purpose planning and development districts will enable Governor Shapp and me to give a new start and a new focus on rural development in the State of Pennsylvania. The financial resources provided in Title I and Title II related to areawide plans and the establishment of financial subsidiaries of the planning and development districts established by the Governor will assist the Governor and me to demand a shift from *conversation* to block action, *to action to promote and provide rural development.*

The Regional Rural Development Credit Banks are most important in our evaluation. We welcome and urge that you retain the provision for direct access to the Bank by individual applicants who are blocked off from rural development by recalcitrant local governments, banks, or planning and development districts. We think this safeguard is most necessary.

We strongly applaud the provisions of the bill that require that Regional Bank Board members and members of the Federal Rural Development Credit Board be legal residents of the rural areas. We hope you will retain the requirement that the headquarters of the Regional Banks be located in a rural area. When permitted to do so, we have a list of suggested locations in rural Pennsylvania for your consideration.

Lastly, Mr. Chairman, let me say that Governor Shapp and I are strongly in support of the simultaneous co-joint operation of the provisions of Title I and those of Title II.

We do not look on this as unnecessary duplication. Rather it is absolutely essential insurance that the Nation will move forward to implement the rural development component of section 901(a) of the Agricultural Act of 1970 which is a kind of Magna Charta for Rural America of the same high stature in the hierarchy of national policy as the Employment Act of 1946 and Title VI of the Civil Rights Act.

Rural America has been neglected so long that hard-hitting, vigorous, imaginative, and innovative effort is required. Not all of the proposals for development will be fully sound from conservative banking standards; some, of course, will. S. 2223 provide for the making available of financial resources for both.

Title II, the hard-nosed banking provisions, will probably meet the bulk of the needs in rural Pennsylvania when it gets underway, but it can never meet all of the needs as the continued operation of Farmers Home Administration attests in the fields of farm credit and water and sewer system loans.

Consistent with the emphasis of the bill on strengthening local financial institutions, the provisions prevent, even the new rural development banking system, from assuming a competitive stance either with private banking or with the already existing Federal Credit programs in Small Business Administration, Economic Development Administration, Appalachian Development Commission, and the Department of Housing and Urban Development.

We strongly hold to the conviction that independent farmers and Rural Americans are entitled to obtain credit at the same interest rates and terms as heavy industry, processors, and defense plants receive. To the extent that private banking and existing Federal Credit programs provide credit and investments on equal terms, we do not object to the non-competitive stance mentioned above.

We do strongly suggest however, that the new rural development credit system should not be so timid in avoiding competition that it forgets its basic rural development mission, as some of the existing agencies appear to have done.

We support the aim of Title II of the Bill that the hard-credit institutions of the rural development credit system shall ultimately become borrower and participant owned and controlled. We think the success of the Farm Credit System provides justification for this.

But just as in the case of Farm Credit Administration, we believe that the hard-credit agencies and institutions of Title II will do a better job over the years if there is ample provision for a creditor of last resort as provided in Title I.

Mr. Chairman, the rural development credit needs in Pennsylvania are of great magnitude. Yet Pennsylvania is only one of the 50 states and by no means the largest in need for rural credit. With our total needs in mind, Governor Shapp and I recommend that the initial U.S. Government subscription of capital in the Rural Development Credit System be increased from the $2 billion provided in the bill to a discretionary $10 billion to be used if demand for loans requires it. The authorization for annual subscription of capital stock should be increased from $200 million to $3 billion.

Mr. Chairman, Pennsylvania is in a crisis of rural decline. If you put off the fleshing out the financial muscle of these new rural development credit programs too long, Rural Pennsylvania will already have gone down the drain before your new rural development banking system gets into operation. The canary "died" in most of the coal mines in Pennsylvania. The canary is gasping for life in rural Pennsylvania.

We need in Pennsylvania our share of $100 billion of rural development credit within the next three years. We urge that you expand both Title I and Title II so that we may attain these goals.

My Department and the Government of the Commonwealth of Pennsylvania are dedicated to an all-out effort to reverse the flight of the people from the land in rural areas of our State.

We want to do everything that can be done to build prosperous, attractive, permanent rural communities throughout our State.

To do so we need a vast program of recapitalization to provide the funds needed to build modern fully-adequate community facilities and public works, provide last-resort public employment, vastly improve the access and quality of public and community services, and vastly expand the private business, recreational, and industrial development required to provide a rapid increase in good paying jobs.

In this regard, Mr. Chairman, I cannot overemphasize the importance of keeping intact and expanding the provisions in S. 2223 for rural development incentive payments and capital grants.

Our rural communities in Pennsylvania have been in a declinnig condition so long that they simply cannot develop a feasibility cash flow situation which will fully pay off a loan for the cost of the needed facilities.

Not only do we have a "Pollution Control Gap," but also a *tax base gap.*

If the Federal Government and the State Government insist upon high environmental quality standards, *as they should, our rural communities, without the grants provided in Title I and Title II, will simply be wiped off the map.*

It is that serious, Mr. Chairman, in Pennsylvania and I am sure in all the other states in the Union. If we seriously mean to implement Section 901(a), the Balanced National Growth Policy, we simply cannot do so without grants to counties and municipalities in our rural areas, and if the jobs and increased tax base required to maintain an expanding economy and increased incomes needed to hold our people and attract others are to be provided, loans must be backed up with grants in the form of rural location incentive payments to business and industry.

I am not suggesting welfare payments or payments to marginal business enterprises. I am strongly urging greater provisions than S. 2223 makes for direct, straightforward rural development location incentive grants or payments to solvent, strong national and multi-national corporations to induce and encourage them to locate their expansions in plant capacity in less populated rather than more densely populated areas.

No rural development effort can succeed if we do not provide parity income for family farmers with an adequate source of credit. Therefore, Mr. Chairman, we urge the enactment of the provisions of Title I that establish:

1. A full-time Assistant Secretary of Agriculture for Rural Development Credit. The span of attention of the current Assistant Secretary for Rural Development and Conservation is so wide that he cannot give the full-time attention it deserves to the credit needs of Rural America.
2. The establishment of the Farm Development Administration that will have a full-time Presidentially-appointed and Senate-confirmed Administrator. The Administrators of Farmers Home Administration have all been great in insisting upon ample farm credit. But, as the non-farm functions of FHA have expanded, less and less of the Administrators' time could be devoted to the credit problems of farmers who cannot qualify for conventional credit. We think farmers deserve a full-time Presidential-level credit advocate.

In conclusion, Mr. Chairman, let me say again, Governor Shapp and I strongly endorse and urge your favorable action on S. 2223. We urge your thoughtful consideration of the suggestions for improvement we have made.

Let's get recapitalization of rural America underway. We can perfect the resulting legislation as we go along in later years.

Thank you, Mr. Chairman, for allowing us to present this statement. I shall be happy to respond to any questions that the Subcommittee members may have.

(The exhibits are as follows:)

COMMONWEALTH OF PENNSYLVANIA,
DEPARTMENT OF AGRICULTURE,
JAMES A. MCHALE, *Secretary of Agriculture.*

EXHIBIT A—POLICY STATEMENT AND GOALS

The policies and goals of the Department of Agriculture rest upon the conviction that a land and resources policy for the Commonwealth of Pennsylvania must be based upon a prosperous and growing rural society.

Prosperous farm families owning and/or tilling their own land is the balancing force needed in the social, economic, and political structure vital to the stability, preservation, and improvement of representative democratic government and of an efficient consumer-producer system.

RURAL POLICY

We believe that the great open spaces of Pennsylvania are the heritage of all the people of Pennsylvania—urban and rural.

In the final analysis, those who live and work in the rural areas of our State are trustees and husbandmen entrusted with the responsibility of conserving and improving the last great resource we have, other than our people, namely the unused and largely unplanned space of our State.

COMMON PROGRESS

It is imperative that a common set of goals be developed between urban Pennsylvanians and those who live and work in rural Pennsylvania. The problems of each are interrelated. No permanent solution can be reached for either urban or rural people except by their complete cooperation with each other.

GOALS TO ACHIEVE POLICY

1. Create a bridge of understanding between rural and urban people in Pennsylvania.

2. Create a bridge of understanding and cooperation between the Federal, the County, and Township units of government, and the State of Pennsylvania.

3. Improve the income and standard of living of all citizens of rural Pennsylvania.

4. Improve the quality of life for all Pennsylvanians by preserving and improving the rural areas for all the people—urban and rural.

5. Re-populate, re-vitalize, re-capitalize rural Pennsylvania.

6. Assist people in rural Pennsylvania to have a more effective and vital voice in the policy making processes of the Commonwealth.

7. Create new economic and nonprofit service institutions in rural Pennsylvania through community and regional actions in cooperation with state and national governmental and private agencies.

8. Develop a functioning practical program of service work for rural and urban people of all ages.

EXHIBIT B—FARMERS AND RURAL AMERICA

It is almost impossible to discuss agricultural economic and social conditions without discussing the total economic and social conditions of rural communities in a largely urban America.

Depression in rural America since 1952 has helped to bring intolerable conditions to urban America and to deepen the depression in the cities. The trouble in Watts, Chicago, Detroit, Washington, D.C., and other cities was to a large degree brought about by the migration of poor, untrained, uneducated rural people seeking jobs, better housing, better health care, better education, and more social opportunity.

Agriculture and farmers' rural nonfarm neighbors, farming, processing, and marketing to farm products must be considered as an integrated and important element of rural America.

Rural America has been de-capitalized by pumping more than $100 billion of its investment in its young people out of rural America each generation.

It has de-capitalized to the extent of approximately $150 billion more by purchasing more goods and services from outside rural America than it has received in income and under President Nixon it fell below its 1963 level.

Moreover, the income of nonfarm rural residents has not been on a parity with urban America.

The fact is that more than 50 percent of the poverty is in rural America while less than 35 percent of the population lives outside of the metropolitan areas.

There are more occupied living (housing) units unfit for human occupancy (by number) in rural America than in urban America.

RURAL AMERICA HAS BEEN DE-VITALIZED—IT HAS BEEN DEBILITATED

1st, because it has been de-capitalized of its young vigorous people.

2d, by loss of dollar income owing to weak bargaining power.

3d, by totally inadequate health services.

4th, by totally inadequate school buildings and even lower educational quality.

5th, by completely inadequate occupational opportunities including farming.

The heavy capitalization of the larger than family farms has not substantially benefited most of the people in the rural community, including the bulk of farm families.

RURAL AMERICA HAS BEEN DE-POPULATED

Because of poverty incomes and lack of opportunity to live in a quality life and from the sheer lack of jobs and promising economic opportunities, the young people, year after year, have left in search of better opportunity elsewhere.

WHAT ASSETS DOES RURAL AMERICA HAVE?

1. *People who have withstood great trials and troubles.*

2. *Next to people, rural America has space—for more people*, more industry, more quality of living opportunity. People need space to live just as animals do.

WHAT MUST BE DONE

1. Increase the income of all rural people, to a full equality living standard. The incomes of farmers, the old, the migratory workers, the lower income workers, small business men and low income professional people must be increased.

2. A high-speed, low cost, mass transportation system for people, particularly the poor and the aging, clear across rural America.

3. Improved developmental highways and access roads.

4. A public service "last resort" employment program must be put into effect at good standard of living wage levels. Such a program of public service employment can be used to help build and operate schools, hospitals, nursing homes, children's day care centers, enhance natural beauty, conserve natural resources, and any other economic and social infra-structure needed to build 400 new cities in rural America.

5. A guaranteed annual income to all farmers equal to a modern fully adequate standard of living income in conjunction with a family assistance program. The floor should be the ceiling on Federal payments to individual farm families. The Federal Government should disqualify any farm family which grows more farm commodities than he is allotted. Price supports could then be eliminated or established at competitive world level. Food could then be sold at free market prices.

Farmers would have the responsibility of taking adequate care of the soil, water, and other resources which they are using as a condition of eligibility.

6. A guaranteed annual income to replace inadequate welfare systems equal to an adequate standard of living should be provided first to raise all Americans now in poverty to an adequate standard of living.

7. A nationwide rural and urban land use policy and land use taxation should be put into effect.

This policy should discourage over-crowding people on too little land. It should encourage a substantial re-distribution of population. It should place a premium on using farm land in family type and size farms. Such a policy should place a great emphasis on obtaining pure water, clean air, and general ecological conditions conducive to the improvement of the quality of life and the general upgrading of human values. This means that emphasis must be placed on the improvement of the conditions for human growth, improvement, and development.

To make a population re-distribution policy workable in a democracy, and to make it tolerable anywhere, a population re-distribution policy and program must be preceded by and accompanied by a firm vigorous determined policy and program to geographically re-distribute jobs—economic opportunity—because people cannot and should not be asked to live where they cannot make a good living. An adequate population re-distribution policy also requires an aggressive program for rural parity of community services and facilities, of planning and development aids, and of recreational and cultural opportunities.

To provide additional jobs and economic opportunities in the rural America really boils down to four things:

Parity family farm income.

Rural industrialization.

Location of Federal and State Governmental installations and procurement contracts in less densely populated areas.

Expansion of tourism and vacation and retirement living in rural areas through enhancement of rural cultural, scenic, recreational and living amenities.

Except for improving family farm income, expansion of business activity and jobs in rural areas is uniquely dependent upon—

A national full employment policy without runaway inflation.

Deliberate hard pressure by Governors, the President, Congress, and legislatures to require that installations be located in rural areas, and that Government procurement contracts be left to the firms that will fill the orders by production in rural plants.

Deliberate Federal and State policy to provide the loan and grant money required to bring rural community services and facilities up to at least a suburban quality standard and even those, of course, could and should be improved in most cases.

MORE MONEY AND NEW INSTRUMENTS NEEDED

The problems of rural America do not necessarily require more Federal or State employees. Providing technical assistance and education is important.

What rural America needs is more money to make the investments required to overcome the artificial handicaps that have been imposed upon the rural areas for two centuries of thinking that migration to cities is synonymous with progress.

It will require an infusion of investment capital of sufficient amount to move rural America off economic dead center and start it off on a new growth curve at a self-generating take-off point.

This we seem to have been able to do successfully in Formosa (Taiwan) and South Korea. Mexico seems to have done it. Rural America and rural Pennsylvania can do it too, just as the Marshall Plan in Western Europe, the successful post-war effort in Japan, and in Mexico, Taiwan, and South Korea.

We must put enough money into rural America to get it moving again.

Money to establish and operate new industries.

Money to finance new cultural and recreational facilities to attract tourists.

Money to raise the quality of schools, welfare programs, law enforcement, and other community services.

Money to build and improve adequate community facilities all the way from fallout shelters to community meeting halls, jails, airports, water systems, and solid waste disposal systems and sewer systems.

Money to enable rural people to operate their own planning and development agencies with their own professional staffs.

Also needed is—

1. A land use planning and zoning commission.
2. A Federal land transfer bank to reduce speculation and guarantee fair return to seller and buyer when use of land or other physical resources change. This bank should be backed by $50 billion of capital. It would not need in the long run, to cost anything (net), if properly used.
3. A rural development bank of issue and discount to assist by loans, technical guidance, and planning the relocation of going industry and business and the creation of new agro-industrial centers throughout rural America.
4. The building of 4500 neighborhood and community-wide cultural centers for education and cultural revitalization. Such centers would encourage folk lore history, folk music, and self expression for everyone. They would be the wellspring for the meaningful use of leisure time in self-expression in skills, crafts, music, and arts.

Such centers could be the training center for services in the field of recreation, travel, entertainment, and the development of new modes of living.

Such programs can be financed because they do not use up wealth—as warfare and military assistance does. Such programs create new wealth in the following ways:

1. A more dynamic, healthier, happier people.
2. Multiplying many times the use of values of our natural resources.
3. The increased volume of income created by human and natural resource improvement and more productive use will allow a many-fold tax increase justified by a quality life in which fear of want, fear of old age, and fear of ill health is eliminated.

Senator ALLEN. Thank you, Mr. McHale, for this very fine testimony. I might say that I believe your statement is one of the most comprehensive and analytical statements we have had the pleasure of hearing in our hearing before the committee. I appreciate the suggestions that you have made.

I gather that you favor the concept of the bill, but you feel that we really are not going nearly far enough, that is about the size of it.

Mr. MCHALE. We feel that very strongly. I think it is a real crisis we are in. We must do a lot of long-range planning. We have put things together piecemeal in the past. We must take a look at the way it is.

Senator ALLEN. The people of Pennsylvania realize now, I believe, along with people throughout the country, that some of the very core of the problems of the urban areas lie in the rural communities, where the outmigration problem in the rural community is also creating a problem also in the urban areas.

Mr. McHale. Very definitely.

Senator Allen. That, though, really was not to prevalent 10 years ago, was it?

Mr. McHale. No; it wasn't. I think we have got a real new attitude coming out of Pennsylvania from our Governor Shapp. He understands the problem. He has put together conclusions back in the fifties that have all come true today. Some of the things we are talking about today are things that he analyzed back in the fifties and early sixties.

Senator Allen. We have noted with a great deal of interest his prompt action and the fine recommendations that he is implementing there in Pennsylvania. And we appreciate your statement in your own behalf, and in behalf of the Governor.

I was interested on one further item here that I would like to get you to comment on: that is, that rural Pennsylvania and rural America have sent about $200 million worth of young people to the cities in each of the last two generations. How would you measure, in terms of dollars, the young folks all of rural America is losing to the cities?

Mr. McHale. We did quite a bit of study on that, and came up with that figure. But what it amounts to is that the rural people pay for the education, and we get them up there where they can be taxpaying citizens, and none of them stay in the rural areas, they just leave, because there is no future.

I milked cows for 18 years myself to make the things go the way farm income was. The only thing I told my boy when we sold out was, hurry. We just had a predated check to buy his Christmas present with. The kids don't like that working 18 hours a day and telling them to hurry all the time.

This is what is happening out in the country. They see the old man working from morning to night and no return. So the children have left, and that is after all the rural people have paid for their education.

Senator Allen. Do you feel that the approach of S. 2223 is sound in providing for this Rural Development Credit Bank?

Mr. McHale. Very definitely.

Senator Allen. You are familiar, I am sure, with the history of the Farm Credit System, and the fact——

Mr. McHale. My deputy is better informed. He was the FHA Administrator.

Senator Allen. That is a great success story in modern day finance, is it not?

Mr. McHale. Yes. I pointed out, I don't think it is a cost, it is an investment for the future that we are talking about in this type of legislation.

Senator Allen. But the borrowers own the farm credit system, do they not? And that is what is envisioned by this bill, that it eventually would be owned by the borrowers.

Now, are there not enough credit needs throughout rural America to take care of any lending institution or lending agency, private or public, which has funds to invest?

Mr. McHale. I really don't feel there are at the present time. I think we are talking about a lot of money. I don't think it is money, I think it is attitude. I don't think the people we referred to understand the problem or would be willing to make the investment. And I don't believe they really could. I think this time we have to turn to the Federal Government.

Senator **Allen**. Yes. The question I asked was, are there not credit needs enough to supply all of the lenders who want to lend? Aren't there enough needs out there to where everybody that wants to lend can lend? In other words, this will not encroach on the lending ability of any other agencies, whether public or private, would it? Aren't there enough credit needs for all the institutions, whether they are public or private?

Mr. **McHale**. Yes.

Senator **Allen**. In other words, this will not deprive any lender of the opportunity to lend if he wanted to?

Mr. **McHale**. No, it absolutely wouldn't; no, sir.

Senator **Allen**. Do you feel that the bill would have the support of rural dwellers and city dwellers in Pennsylvania?

Mr. **McHale**. I feel it would. I think our Senators, when they understand what we are trying to do, will support it as well. We are going far to build a bridge of understanding between Congress and the city people, made up of our Consumer and Rural Development Councils. Our Governor is quite concerned in keeping the people informed and making the Department of Agriculture and the other agencies advocates for the people instead of agencies that do something to people.

Senator **Allen**. That is very fine. And I appreciate your splendid testimony, Mr. McHale. And I appreciate both of you all coming before the committee.

Mr. **McHale**. Thank you very much.

Mr. Norman, president, First National Bank, Clarksville, Tenn.; and chairman, Agriculture and Rural Affairs Committee, American Bankers Association.

Mr. Norman, we appreciate your coming before the committee. I believe also you are chairman of the Agricultural and Rural Affairs Committee of the American Bankers Association.

Mr. **Norman**. Yes, sir.

Senator **Allen**. Would you be speaking in their behalf as well?

Mr. **Norman**. Yes, sir.

Senator **Allen**. You are appearing both personally and officially.

Mr. **Norman**. Yes, sir.

Senator **Allen**. Thank you very much. We look forward to hearing your testimony. Proceed.

STATEMENT OF EDWARD M. NORMAN, PRESIDENT, FIRST NATIONAL BANK, CLARKSVILLE, TENN., AND CHAIRMAN, AGRICULTURAL AND RURAL AFFAIRS COMMITTEE, AMERICAN BANKERS ASSOCIATION

Mr. **Norman**. Senator, I work for the First National Bank of Clarksville, Tenn. And as you stated, I am chairman of the Agricultural and Rural Affairs Committee of the American Bankers Association.

I live in a community of about 37,000 people. Our bank has deposits of $30 million. And of course our association has about 97 percent of the banks in the country as members of our association.

We are a country bank. At the present time we participate in some three Farmers Home Administration water systems on interim financing. And we have about five loans with the SBA as far as agriculture business is concerned. And many of these activities have as well a pretty good portfolio of industrial revenue built in our own community.

First of all, we think that rural development is important, and want to compliment the committee on its activity in this area.

Rural banks, of course, have a very special interest in such development, since about 60 percent of all the commercial banks of the country are located in these smaller communities.

We endorse the general purpose of the bill to assure that capital and credit is available in rural areas for sound noninflationary economic growth, and to facilitate the flow of funds from the central money markets into rural areas.

Our banking system has undertaken this problem through a task force that is currently organized and operating. And as Governor Mitchell mentioned this morning, the Fed is undertaking special studies in this area to find some way that the commercial banking system can effectively support this effort.

While we agree wholeheartedly on the objective of this bill, we differ on how this can best be accomplished. In other words, how can we make rural development really work? The President's Task Force on Rural Development told us what rural development is not.

1. It is not a new agency of Government.
2. It is not a new appropriation to spend money in rural America.
3. It is not a new set of directives from the Federal Government.
4. It is not a new program handed down and run from above.

Unfortunately, we see a lot of these very points incorporated in the plan outlined by the legislation before your committee.

We hope to make it clear that our association agrees with much of the thinking, reasoning, and philosophy expressed in the report of the President's Task Force on Rural Development, but disagrees with the recommendation for a new credit institution. We do not feel that the task force envisioned a Federal Rural Development Credit System of the type proposed in S. 2223.

The significant points of the task force report appear in this statement: "The real strength of rural development is that it harnesses local energies and is run by local people who know better than anyone their own problems, their own capabilities, and their own priorities." Moreover, the report stresses that rural development depends on creating job opportunities, and that jobs are created by the ingenuity and ambition of private enterprise. Obviously, then, whatever we do we must not destroy the incentives of local people and private enterprise. We feel there are dangers of doing exactly this in legislation establishing a new federally controlled credit system.

Although it is obvious that some capital and credit needs should be shared by society, we see no convincing evidence that a "massive" amount of credit is needed in rural areas, as is suggested by the provisions of the pending bill. Department of Agriculture research, reflected in testimony on this legislation, supports this conclusion. Since the major problem in rural areas is farm income, providing rural areas with additional credit will not increase farm prices or provide additional income. In fact, too much credit dispensed by inexperienced people is harmful rather than helpful.

We strongly urge prudent effort to create more opportunity for people in rural America, to upgrade their incomes, and to reverse the migration from rural areas; but we oppose creating any new Federal agencies for financing rural development.

The key word is new, for we feel that necessary Government assistance can be obtained through existing programs.

We are aware that existing programs should be made more effective and we fully support all such efforts. In fact, we hope that this committee would defer action on the pending legislation and reestablish as its primary objective the improvement of existing Federal programs. We found much wisdom in the statement by the President's Task Force on Rural Development concerning the streamlining of Federal programs when it said "The Task Force on Rural Development finds no shortage of Federal programs—but we do find problems of availability to users. Federal programs must be made more effective."

We fail to see how the adding of a complex new rural development credit system on top of current programs is going to achieve desirable objectives.

The major question we raise concerns the great duplication that could result between this proposed new credit system and the 80 separate Federal loan programs referred to in your committee's analysis and now operating. Either the new credit system or a large number of these 80 programs is not needed.

In analyzing existing programs, we discovered the same duplication cited by the President's Task Force on Rural Development. However, we feel confident that with proper legislative and administrative changes, many of these programs could become more effective tools for rural development. I'd like to refer to just three such areas:

1. The Farmers Home Administration—The American Bankers Association endorses the general thrust of title I of S. 2223 which would reorganize the FHA by separating farm lending from the rural enterprise and community development credit service. We believe that it is wise to broaden the scope of the Farmers Home Administration in making both direct and insured loans for rural development projects, as long as they are consistent with approved rural development plans and are confined to "soft credit loans." We would hope that an expansion of the rural enterprise and community development programs will not be carried out at the expense of loans to farmers. We are particularly anxious that young farmers be given every opportunity to establish potentially profitable farms.

We believe there are additional opportunities to strengthen the FHA program, which already has an established national organization with county or multicounty field offices. We would like to encourage the FHA to adopt an insured farm operating program as it has in the farm ownership and rural housing areas. The FHA should be commended for moving more toward the insured loan basis, thus obtaining a greater proportion of its funds from the private sector with less reliance on direct Government money. We would suggest that the Congress consider a Farmers Home Administration program that would provide a guarantee for farm ownership, housing and operating loans somewhat similar to the Small Business Administration guarantee loan program. We firmly believe that with some ingenuity, other risk-sharing programs can be developed where needed to bring about an effective partnership in financing between private enterprise and Government.

Incidentally, we seriously question the wisdom of substantially changing the statutory identification of rural areas from towns of less than 5,500 people to communities of up to 35,000 in population. We feel that the intent of the pending legislation would actually be defeated if the small community is pitted against larger ones in competing for funds.

2. Small Business Administration—We have received excellent reports from bankers about the present SBA program. A refreshing businesslike attitude within the Agency has resulted in many changes, particularly in procedures which have really made the program work. The paper jam was broken and loans are now being placed on bank books which are helping small businessmen and in turn their communities. Evidence of this was reflected in the recent report by the SBA indicating that SBA-bank loans have nearly doubled during the past year. The total outstanding as of June 30, 1971 was $863 million.

We are convinced that other things can be done to make the arrangements still more effective. We support, for example, S. 2471 introduced on August 6 by Senator Bellmon and referred to the Committee on Banking, Housing and Urban Affairs. This bill would expand SBA authority so it could guarantee loans to businesses engaged in farming operations for financing production of agricultural commodities. The 90 percent guarantee enables the bank to spin off the loan to other type investors and thus release bank funds for other lending in the community. It, therefore, accomplishes one of the main objectives of S. 2223, that is, to attract funds from outside communities to rural areas.

3. Federal Housing Insured Loans—These are well established programs, but unfortunately, lending in rural areas has been somewhat minimized since it is virtually impossible to get such insurance on home mortgages for properties located in rural areas without city water and city sewerage systems. We believe the abilities of the Federal Housing Administration to insure loans in rural areas can be expanded without sacrificing any of its requirements as to construction or credit standards.

In summary, we fully agree that a "new look" is needed for dealing with the future, but we do not believe it is appropriate for the "new look" to be a complex and unnecessary credit system.

I hope the committee in its deliberations does not lose sight of the fact that established financial institutions are providing a tremendous amount of capital and credit to rural areas. There has been a substantial increase in such funds during recent years. I can cite one significant area, that of direct loans to farmers for all purposes extended by commercial banks, insurance companies, and the Cooperative Farm Credit System plus individuals, merchants, and dealers. These sources have nearly $60 billion outstanding as loans to farmers—twice the amount of a short 6 years ago.

We believe, as Governor Mitchell indicated this morning, that creating a new agency will not necessarily increase the supply of money. It would just be another organization in the arena competing for existing funds with the Cooperative Farm Credit System, commercial banks, and others already working to meet the credit needs of rural areas.

It is our belief that established financial institutions, cooperating with existing—but improved—Government programs is the best way to finance sound economic growth for rural areas. We see no reason for a new Rural Development Credit System with its crippling bureaucracy, inefficient duplication, and contingent, direct Government financial involvement.

Thank you.

Senator **Allen**. Thank you, Mr. Norman. I appreciate this fine testimony, and the contribution that you have made to the record.

I wonder if you could have the members of your staff or your organization prepare some of the suggested changes for title I, assuming that we are able to go ahead——

Mr. **Norman**. We are in accord on that; yes, sir.

Senator **Allen**. That would let you carry out the suggestions that the Farmers Home be authorized to use the SBA type of loan and also the Federal Housing Administration type of mortgage insurance.

Mr. **Norman**. Yes, sir.

Senator **Allen**. I know that there is a multiplicity of Federal agencies that agree on that. I was interested in your figure, though, that there are 80 lending agencies, 80 agencies where money can be obtained.

Mr. **Norman**. I don't think we referred to 80 lending agencies. We simply took this from the President's Task Force.

Senator **Allen**. 80 what?

Mr. **Norman**. Eighty agencies assisting in rural development.

Senator **Allen**. Financing?

Mr. **Norman**. I wouldn't think they are all financing; no, sir.

Senator **Allen**. Study groups and the like?

Mr. **Norman**. Study groups, OEO's, and OEA's.

Senator **Allen**. We get hordes of studies but not so much money sometimes. That helps.

I think your comments on the Farmers Home Administration and the SBA and the Federal Housing insured loans are certainly well taken. And admittedly they are doing a great job.

Also I want to congratulate you on the fine work that you are doing there in your own community. Certainly you are having a part in the building of your community, by making rural loans and participating in the development corporation loans and things of that sort. You are certainly doing a real fine job there. I think that is highly commendable.

Do you approve of the concept of the present Farm Credit System where, on initial capital furnished by the Federal Government, and then borrower participation and purchaser stock, the system has now become owned entirely by the borrowers?

Mr. **Norman**. Yes, sir; the success has been tremendous. It has contributed to rural areas. And naturally we would all admit that, apathy on the part of the rural banks which created the system in the first place. And as was the thrust of our testimony a few weeks ago, our own goal is a competitive system in a free and competitive environment.

Senator **Allen**. Well, the Farm Credit System, do they not now go to the private sector to obtain funds?

Mr. **Norman**. Yes, sir.

Senator **Allen**. You approve of that concept?

Mr. **Norman**. Yes, sir.

Senator **Allen**. Is that not the concept of S. 2223, initial capital furnished by the Government which would eventually be replaced by borrower ownership, and then going to the private sector for the funds, the lendable funds, would that not be a sound concept?

Mr. **Norman**. It is. Our testimony here is that the existing agencies, the Farmers Home with more insured loans, can enter the private sector. The Federal Housing Administration certainly through FNMA and the sale of loans throughout the whole system can support it through the private sector as well as Government funds. And also the SBA through its loan guaranty program can capture bank funds. And another thing in the bill, if banks can participate with the agencies, the newly established bank on a recourse basis, there needs to be some coordination with the supervisory authorities, because they consider that a full liability of the bank. So if we are loaning up to a hundred percent, the sale of notes to the new credit bank would run us up in their eyes to 110 percent. So some consideration needs to be made of that where we can participate and take risks on an equal basis, rather than ask the banker agency to endorse the paper and guarantee it in full. It won't serve any purpose unless it does.

Senator **Allen**. You spoke of spinning off these SBA guaranteed loans to other investors.

Mr. **Norman**. Yes.

Senator **Allen**. Do you sell those?

Mr. **Norman**. We can sell them to larger banks or individuals within the community. We have sold participations there. The supervisory authority does not count that 90 percent guaranty—they count that as a liquid asset as far as the bank is concerned.

Senator **Allen**. How do you carry it?

Mr. **Norman**. We carry it as loans, but they segregate it into guaranteed loans and risk loans.

Senator **Allen**. They allow you to put FHA and GI loans there also?

Mr. **Norman**. Yes, sir, and also Farmers Home Administration paper purchased by the bank.

Senator **Allen**. You understand that the bill under consideration provides that a person could not borrow from the Rural Development Bank if he could get the money elsewhere.

Mr. **Norman**. Yes, sir.

Senator **Allen**. It would be sort of an appeal of last resort.

Mr. **Norman**. Yes, sir.

Senator **Allen**. So that there would really be no infringing on the territory of the existing agencies, you understand that of course.

Mr. **Norman**. Yes, sir.

Senator **Allen**. Now, there are enough credit needs to take care of all of the supply, are there not?

Mr. NORMAN. At the present time? Of course, during tight money everybody was short. But at the present time the Farm Credit Administration, the insurance companies and the commercial banks, are able to meet the demand in rural areas.

Senator ALLEN. That is long-term demands also?

Mr. NORMAN. We have managed—SBA with its up to 10-year program—we have floated industrial revenue bonds up to a 20-year maturity, and we have been able to meet all the needs of any economically justifiable enterprise. Now, I must admit that this is my area only, and there might be other areas where the credit is not available.

Senator ALLEN. Well, Clarksville is a town of 35,000 or 40,000.

Mr. NORMAN. 35,000, yes.

Senator ALLEN. And your deposits are up around $37 million.

Mr. NORMAN. Yes, sir.

Senator ALLEN. Obviously you could do a whole lot more. And you are a community-minded bank.

Mr. NORMAN. Right.

Senator ALLEN. Many of banks are not as community-minded as your bank, so I am informed.

Mr. NORMAN. Well, our interim financing at the present time is from three small towns in the trade area approximately 20 miles away. And we handle the interim financing and the Farmers Home Administration makes the final loan on the water system.

Senator ALLEN. This is the interim financing.

Mr. NORMAN. Yes, sir.

Senator ALLEN. Who is going to make——

Mr. NORMAN. One is the Government's own agency, the OEO. And the other is the Farmers Home Administration.

Senator ALLEN. So the Government is through some of its agencies filling that need there?

Mr. NORMAN. Yes, sir.

Senator ALLEN. I notice that you do speak approvingly of the Farmers Home Administration, the Small Business Administration, and the Federal Housing Administration. You think these programs are good and operate in the public interest.

Mr. NORMAN. Yes. Now, in Federal Housing, whether they are authorized to or not, we either need to encourage them to enter rural areas or make it so that they can.

Senator ALLEN. You would favor, then, the approach, if there is a demand that is not being met, of beefing up existing agencies rather than setting up a new bank?

Mr. NORMAN. Exactly; yes.

Senator ALLEN. Even though the new bank would get the bulk of its lendable funds from the private sector?

Mr. NORMAN. Yes, sir.

Senator ALLEN. Whereas all of the Farmers Home and a large portion of the SBA is all Government money?

Mr. NORMAN. Yes, sir. And we believe, as stated in our testimony, that the insured loan program sold to larger banks, giving them a degree of liquidity much as a Government bond, would enable them to penetrate the private sector much more for their funds, and to depend less upon appropriations. Now, this is true both of the Farmers Home

Administration and the SBA. That will enable them to penetrate the private sector much more than they are at the present time.

Senator ALLEN. Are you familiar with the provisions of S. 2223 that provide for banks, savings institutions, participating under this program as participating rural development financing institutions whereby they could make loans and sell them to the banks?

Mr. NORMAN. Yes, sir. And I emphasize my comment that it is going to have to be on an equal risk basis. If it is with full recourse on the banks, then we have accomplished no real significant purpose in selling the loan, because the loan ratios are too high.

Senator ALLEN. Why would you feel that any different system would be used than the SBA where you say you don't have to carry as risk loans?

Mr. NORMAN. Well, the SBA guarantees those loans, whereas we offer our guaranty to the purchasing bank on the loan. It is not a matter of quality of credit. I don't think we would make any loan if we weren't willing to guarantee.

Senator ALLEN. Would you suggest language, then, whereby the loans would be put—you would recommend that we go forward and put them on the same basis as the SBA guaranteed loans?

Mr. NORMAN. Yes, sir.

Senator ALLEN. Which would allow a local bank to participate without having the loan classed as a risk loan?

Mr. NORMAN. The total liability to the bank; yes.

Senator ALLEN. That would be your suggestion, then?

Mr. NORMAN. Yes. Because if this bank buys a note from my bank, certainly it has a responsibility to investigate the credit as well as I. Then we would share the risk according to our participation in the loan.

Senator ALLEN. So some portion of the loan you might keep?

Mr. NORMAN. Yes.

Senator ALLEN. And you would be held liable for that in your statement?

Mr. NORMAN. Yes.

Senator ALLEN. This language does seem to have the authority to have participation loans here on page 33 of the bill.

Do you have a copy of this?

Mr. NORMAN. I have a copy, but not here.

And our own comment on it is, with full recourse endorsement it still leaves a heavy liability on the selling institution.

Senator ALLEN. Yes, sir; I know. But mere participation would not of itself require full recourse.

Mr. NORMAN. Right. And participation among correspondent banks, if we sell notes to larger banks, then the risk is shared equally according to the proportion of the paper that we own.

Senator ALLEN. Mr. Norman, you say at the present time there is enough demand for loans to take care of the lending institutions ability to supply the money.

Mr. NORMAN. Yes, sir.

Senator ALLEN. But you think possibly at a later date that situation might change?

Mr. NORMAN. It may. And it has been in the past.

Senator Allen. Well, aren't the credit needs of rural America escalating tremendously at this time?

Mr. Norman. Yes, sir.

Senator Allen. And is it not projected that the credit needs of rural America will possibly as much as double in the next 10 years?

Mr. Norman. In our own community we have got to have a four and a half million sewer system within the next 5 years. We can go the municipal route, we believe, but it has got to happen.

Senator Allen. That would be a type loan that this bank could make?

Mr. Norman. Yes, sir.

Senator Allen. And also the grant program would be funneled through this bank as well. So that if it is approved for participation in the grant program, that would be made available through the bank under the bill.

Mr. Norman. Yes, sir.

Senator Allen. Do the various members of the farm credit system, the various entities there, the Federal Land Bank, and other institutions, the Production Credit Association, they work well with the banks; do they not?

Mr. Norman. Yes. And there is a relatively—although we are directly competitive, there is a relatively good association. They do have a definite competitive advantage upon us. And we are seeking to correct that. And that is our own plea. We think they should be regulated as are other lenders. We think they should pay taxes.

Senator Allen. I might state that we passed that in S. 1483.

Mr. Norman. We thank you for that, sir.

Senator Allen. And that was done right here in this committee?

Mr. Norman. Yes.

And also the State and local laws.

Senator Allen. But sometimes I guess they have been known to bail banks out, haven't they, with some of the slow loans.

Mr. Norman. Yes, sir. And we have bailed them out too.

Senator Allen. It works both ways.

Mr. Norman. Yes, sir.

Senator Allen. You wouldn't feel that another bank getting money from the private sector and lending for the purpose of rural development, that that would be a bad thing for a community, would you?

Mr. Norman. No, sir. We believe the main thrust is that it would be cheaper to utilize existing agencies in this area.

Senator Allen. And the overhead is the main objection that you have?

Mr. Norman. Yes, sir.

Senator Allen. If the Government got to the point where that was all paid by the borowers themselves as the owners, you wouldn't have that objection, then, would you?

Mr. Norman. No. Because it wouldn't be my business.

Senator Allen. Because it would not be tapping the Federal till, if we could get it to that point.

Mr. Norman. Right.

Senator Allen. I would like to say, Mr. Norman, that any suggestions that you care to make or that the association cares to make in the way of suggested revisions we would appreciate having these suggestions made, and submit them to us in writing. We will assure you that they will be given very careful consideration, because Senator Humphrey and Senator Talmadge have both repeatedly stated that they welcome methods of improving the legislation. The committee certainly wants to get the legislation in as good shape as possible, get the bugs out of it, if any exist, and to improve it in every possible way we can. So all suggestions are welcome. We sincerely hope that you will give us your recommendations. They will, I again assure you, be given serious consideration.

Mr. NORMAN. Thank you, sir.

Senator ALLEN. Thank you.

(The information requested above is as follows:)

THE AMERICAN BANKERS ASSOCIATION,
Washington, D.C., October 14, 1971.

Hon. JAMES B. ALLEN,
U.S. Senate,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR ALLEN: When Mr. Edward M. Norman appeared before the Subcommittee on Rural Development with reference to S. 2223, you suggested that The American Bankers Association submit proposed amendments to Title I of S. 2223 which expands the authority of the Farmers Home Administration with reference to loans and grants for rural development. A.B.A. takes this opportunity to recommend the following amendments:

(1) Section 307 of the Consolidated Farmers Home Administration Act be amended to eliminate the 5% ceiling on interest rates that can be charged by the Farmers Home Administration on its farm-ownership loans, water and waste facility loans and any other loans that would be made under *Subchapter 1—Real Estate Loans.* Without the recommended change the 5% rate would apply to all the new rural community development loans. The 5% rate is unrealistic today and the Farmers Home Administration has previously recommended that the 5% ceiling be eliminated and that these rates be based on cost of borrowings with comparable maturities by the Treasury.

(2) Section 105 of the bill be amended to change the proposed wording of Section 306(a)(7) A to delete "thirty-five thousand inhabitants" and substitute in lieu thereof "ten thousand inhabitants." This would bring the definition of "rural area" more in line with the definition of "rural area" for housing financed by Farmers Home Administration under Title V, Housing Act of 1949. It seems that the benefits flowing from the Farmers Home Administration should be directed towards helping rural people. If Congress broadens the lending authority of the Farmers Home Administration so as to apply to larger centers rural people may find that for all practical purposes they will be left out of the programs.

(3) Your Committee has previously reported legislation that provides an insured operating loan program for Farmers Home Administration. It is suggested that this provision be incorporated in S. 2223.

(4) Farmers Home Administration provides a guarantee for farm ownership. housing and operating loans somewhat similar to the Small Business Administration guarantee loan program. The American Bankers Association is presently developing legislative language to effectuate this recommendation.

(5) Attached is S. 2471 introduced by Senator Bellmon. You will note that Section 1 of S. 2471 makes it clear that the Small Business Administration can assist in providing credit to small business concerns engaged in farming operations. Enactment of this provision permitting the Small Business Administration to guarantee loans for farm operation would make such loans more attractive to other investors. It would enable banks to sell these loans and would thus be valuable in attracting funds to rural areas.

The American Bankers Association has established an Agricultural Credit Task Force which is currently examining ways to assure that capital and credit is available in rural areas. After this Task Force has completed its study, we hope to be able to provide additional ideas.

Sincerely yours,

Charles R. McNeill,
Executive Director, Government Relations,
American Bankers Association.

(S. 2471 is as follows:)

[S. 2471, 92d Cong., first sess.]

A BILL To specifically authorize loans by the Small Business Administration to small business concerns engaged in farming operations to finance the production of agricultural commodities, and to permit national banks to invest in agricultural credit corporations

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by inserting after the second semicolon the following: "or, in the case of a small business concern engaged in farming operations, to finance the production of agricultural commodities;".

Sec. 2. Paragraph "Seventh" of section 5136 of the Revised Statutes (12 U.S.C. 24) is amended by adding at the end thereof the following: "Notwithstanding any other provision of this paragraph, the association may purchase for its own account shares of stock issued by a corporation organized solely for the purpose of making loans to farmers and ranchers for agricultural purposes, including the breeding, raising, fattening, or marketing of livestock, but the amount invested in stock held by the association at any one time in any such corporation shall not exceed 20 per centum of the capital stock of the association actually paid in and unimpaired and 20 per centum of the unimpaired surplus of the association.".

Senator Allen. Mr. W. Robins, I understand you are to testify instead of Mr. Holbrook, is that correct?

Mr. Robins. That is correct, sir.

Senator Allen. We are delighted to have you. And while he was scheduled for this afternoon, since we are moving a little faster than we had planned, and we did get to start on time, we will be glad to hear from you at this time.

I understand that Senator Moss did arrange for Mr. Holbrook's testimony. Senator Moss is one of the sponsors of the legislation. And I am sorry that he is not here at this time. But I am sure he is over on the floor or else tied up with another committee. We do appreciate your presence here, and we look forward to hearing your testimony.

STATEMENT OF W. B. ROBINS, GENERAL MANAGER, UTAH COOPERATIVE ASSOCIATION, SALT LAKE CITY, UTAH, AND PRESIDENT, UTAH COUNCIL OF FARMER COOPERATIVES

Mr. Robins. Thank you. I appreciate being here, Senator.

Mr. Chairman and members of the committee, I appear here today in support of S. 2223—legislation which will create a new financial system, new sources of credit for the revitalization of rural America.

The crisis in rural America has been clearly documented. The crisis of poverty in rural America, unemployment, substandard housing, inadequate schools, inferior public services, deficient medical care—are all well known. S. 2223 offers a way to attack these problems; it offers hope of a better life for rural farm and nonfarm people throughout America.

My testimony will be brief, less than 15 minutes. I wish to support particularly all of the specific authority in the law, including minor amendments which we understand will be proposed, permitting certain types of cooperatives, specifically all bona fide nonprofit cooperatives serving rural areas to qualify legally for loans from the regional credit agencies created by S. 2223 if they are unable to borrow from banks for cooperatives, commercial banks, or other Government or commercial lending institutions.

Despite the splendid service to cooperatives rendered for more than 30 years by the agencies of the Farm Credit Administration including its banks for cooperatives and Farmers Home Administration, there exists today throughout the State of Utah and the intermountain area and, as a matter of fact, throughout much of rural America, a serious gap in credit available to cooperatives. I shall cite a few instances among dozens I have encountered personally—to illustrate the nature and seriousness of this lack of reasonable credit.

The organization I manage, Utah Cooperative Association (assets $3 million, net worth $500,000, volume $6 million annually, net earnings $90,000) is just now beginning to develop reasonable loan commitments after 30 years of business operation. For the first time in our history we were granted during the past 60 days a reasonable line of credit totaling $450,000 by a Salt Lake City commercial bank. This money costs us 10 percent annually. Were we able to borrow from the banks for cooperatives, the rate would be approximately 6 percent—an annual saving of approximately $17,000, equal to 20 percent of our annual net income. During the past 10 years Utah Cooperative Association has regularly paid, throughout much of each calendar year, interest on borrowed money at the rate of 10 to 13 percent annually. Our disadvantage in the marketplace is obvious—and serious. Not only have we suffered serious losses through high interest payments, but because even these high cost funds have been limited, we have been short on facilities and short on inventories. We have lost cash discounts, missed volume buying discounts and have been unable generally to carryout expansion on an orderly basis.

At this moment, Uintah Farmers Cooperative at Roosevelt, Utah, needs $78,000 to expand its fertilizer and petroleum facilities. Incidentally, this cooperative is mortgage free except for about $3,000. Ashley Farmers Cooperative at Vernal, Utah, urgently needs $90,000 to expand its feed-mill equipment and add custom fertilizer spreading service.

Sevier Valley Cooperative Association at Richfield, Utah, has a legitimate need for $80,000. Castle Valley Cooperative at Huntington, Utah, has an excellent projected payout calculation on a new building for which $70,000 is needed.

Each of these cooperatives has a fairly strong balance sheet. Each has a long history of reasonably successful operations. Three are rated "good" and one is rated "fair" in Dun & Bradstreet's current ratings.

For various technical reasons, partly because of administrative interpretation, but mainly because the laws specifically provide otherwise, none of these established cooperatives is able to obtain financing through the banks for cooperatives, the Farmers Home Administration or the Small Business Administration. As a matter of fact these are among the few business corporations in the State of Utah—maybe the only ones—which do not have available an "umbrella of protection" in the form of Federal Government credit. Each pays high interest costs on any money which it is able to borrow and each is handicapped in developing business successfully because of the lack of reasonable financing.

There are opportunities, formalized requests as a matter of fact, to Utah Cooperative Association and to my colleagues at Utah State University, for help in organizing cooperatives to serve Utah's expanding apple growing industry. Groups of small dairymen (20 cows or less) are working desperately to form cooperative milking barns because new sanitation requirements now make it mandatory for them to operate on a scale equivalent to 75 or 100 cows. Commercial banks are not interested in "soft credit" as it is called when loans are made to agencies of this kind. Banks for cooperatives are not interested. Small Business Administration states that "cooperatives are not eligible for SBA loans." As a result, Utah State University estimates that perhaps 1,000 Utah dairymen—and Dr. Morris Taylor of Utah State, one of its leading economists, told me yesterday this figure is nearly 4,000. Perhaps 4,000 dairymen will be driven out of business in Utah during the next few years, many of which could be salvaged if reasonable credit were available to permit them to form associations or cooperative milk barns. Two or three such "association" barns have been organized, but we have been forced to use a structure of deliberate subterfuge, organizing as "for profit corporations" as a technical matter, operating "in the nature of cooperatives" in order to qualify them for SBA loans.

What is urgently needed is a clear-cut statement of intent in S. 2223 which makes all types of bona fide nonprofit cooperatives eligible for financing, if they meet the financial test of the law and if they are unable to obtain satisfactory financing from other sources.

What is also needed, in my judgment, is a statement which requires allocation of funds available through the district banks to be allocated by its board on a reasonably equitable basis to all eligible classes of borrowers.

The language in S. 2223 is dramatic and appropriate, but the scope of S. 2223 is so broad, involving overall "rural development" and the mechanics and procedures so all encompassing that in my opinion, even though cooperatives are covered by the existing language of the bill, under the present language they would find exceedingly low priority. For example, capital generally must come from private sources under complicated procedures. Similarly an areawide multiple-county planning unit is established which would have primary purposes unrelated or only remotely related to the structured role of a cooperative.

While S. 2223 certainly would encompass "agricultural cooperatives," that definition is unduly restrictive, for many nonprofit cooperatives functioning in a true cooperative fashion and serving rural people do not and cannot meet the technical requirements of that definition under the law.

Again, it is only the small and medium-sized cooperatives that generally have no source of credit through any Government agency. Stated another way, affluent agricultural cooperatives have a Government-sponsored "umbrella over their heads" in the form of the banks for cooperatives. Small business has an "umbrella over its head" in the form of the Small Business Administration. Only small and intermediate-sized cooperatives which cannot qualify (under the law or under diverse and changing administrative interpretation) for either of the above are deprived of an "umbrella of Government financing."

My appearance here today is in the hope that this serious credit gap can be closed clearly and definitely by specific language in S. 2223.

Of approximately 80 marketing cooperatives in the State of Utah, only approximately 10 are qualified to borrow from the banks for cooperatives. At least 30 have no adequate source of credit whatsoever.

If time permitted, I believe I could demonstrate rather clearly that the financing of cooperatives in the State of Utah alone which could reasonably be expected to be made available would increase agricultural net income, conservatively speaking, by $3 to $4 million annually the second year. As one example, we forecast that the $90,000 loan required by the Ashley Farmers Co-op at Vernal, Utah, referred to earlier, would increase net farm income in Uintah County by $200,000 to $300,000.

We commend the authors and sponsors of this legislation. Thank you for the privilege of appearing before you today to share views which I earnestly believe represent the thinking of a substantial majority of Utah's farmers.

Senator ALLEN. Thank you very much, Mr. Robins. We appreciate your coming before the committee and giving us the benefit of your views.

As to the suggested change to take care of all bona fide noncooperatives, I am sure the committee would welcome any suggested language that you might be willing to submit. And I am not sure whether you feel that you should prepare something on that or not. The committee is going to take that under consideration, because I am sure the purpose of the legislation is to close some of those gaps, not to leave them outstanding. So I feel that the committee would give very serious consideration to this suggestion. And certainly the members of the staff will work on that and bring that before the committee for action. And I do feel that it is contemplated that these co-ops would be covered. And we would certainly be glad to consider the matter in the committee.

Mr. ROBINS. Thank you. I will be happy to furnish language for your consideration if you so desire.

Senator ALLEN. Here on page 46.

Mr. ROBINS. Section 606, "Eligibility."

Senator ALLEN. On line 23. But, certainly, you have already spelled out the possibility of language that might cover it.

Mr. BAKER. Let me show him the language in the Star print, Mr. Chairman.

Mr. ROBINS. I am referring here to section 606, which does refer to "cooperative associations as defined in the Agricultural Marketing Act," and then provides the reference numbers, if such associations are unable to borrow from the banks for cooperatives, corporations, partnerships—the language could be interpreted in many ways, and that is what I am really afraid of, that this whole thing will be interpreted as applying only to agricultural cooperative associations as defined under the law.

Senator **Allen**. You submit some language that you feel would cure it.

Mr. **Robins**. Describing all bona fide cooperatives serving the rural areas would do it. But I will be happy to check it and provide what I think would do it.

Senator **Allen**. This terrific interest you are being called on to pay is stifling your growth and the service you can render; is that not?

Mr. **Robins**. It has for 25 years. And we finally have broken through in a small way, but it has taken a lifetime to do it.

You see, when a business corporation of any kind, whether it is cooperative or "for profit" business, is eligible for borrowings only from one agency, say commercial bankers, being good businessmen, bankers know this, sense it. Usually they are faced with the necessity of competing, at least in theory, with the Government-sponsored financing agencies, the banks for cooperatives, REA, SBA, or any number of others. But these smaller cooperatives, which are agricultural in character, which do serve some urban and semiurban people partially, can't maintain the technical kinds of membership numbers and the percentage of business required by the farm credit rules, and they are in a no man's land, and they are out of business, so to speak, with respect to competitive money in the marketplace.

Senator **Allen**. Aren't there other gaps, as well as this, in filling the credit needs of rural America?

Mr. **Robins**. Many. And they have been clearly spelled out in this law. I am attempting to confine myself in the interest of time. I am delighted with the breadth of this law, and its depth. There are credit needs that we could spell out her for a solid hour, I suppose.

Senator **Allen**. You feel that this legislation is needed and that it is sound?

Mr. **Robins**. It is needed, it is sound, and it is vital. I am impressed with it.

I have been watching rural America for 40 years and living in it. There is no question but that this can be one of the most important breakthroughs for preventing outmigration, for developing good life in rural America—I am more excited about this legislation than almost any piece of economic legislation I have seen in 10 years or more.

Senator **Allen**. Can it be the machinery for creating job opportunities in many areas?

Mr. **Robins**. It can be, and in my judgment it will be, if this whole intent as explained in the law is maintained.

Senator **Allen**. In providing community services that will make for a better and more meaningful life for people.

Mr. **Robins**. Right, absolutely correct, there is no question about it.

Senator **Allen**. Isn't the lack of job opportunity one of the chief reasons for the outmigration from rural areas?

Mr. **Robins**. The lack of job opportunities, and the lack of opportunities for getting into business, for being an entrepreneur, of course, and for engaging in farming on a proper basis. And of course the lack of facilities in health and the deteriorating quality of education—all of the cultural things that go for the good life are responsible for much of the outmigration.

Senator **Allen**. Thank you very much, Mr. Robins. I appreciate your coming before the subcommittee.

Now, we have taken two of the afternoon witnesses already. I have some work I need to do over on the floor and in the office. Since we have had Mr. Norman, who was scheduled to appear at 1:30, and Mr. King is the next witness scheduled at 2, we will follow that schedule and keep the schedule here for Mr. King. We will recess until 2 o'clock. And if all witnesses are present, we will take Mr. King, followed by Mr. Ernst, and followed by Mr. Watkins, which is the order that they are listed here in the agenda. So we will recess now until 2 o'clock.

(Whereupon, at 11:29 a.m. the hearing recessed until 2 p.m. this same day.)

AFTERNOON SESSION

Senator **Allen**. Mr. Ernst, will you come up, please?

We have your prepared statement here. You may proceed, sir.

STATEMENT OF LLOYD A. ERNST, ASSISTANT TO THE GENERAL MANAGER, BASIN ELECTRIC POWER COOPERATIVE, BISMARCK, N. DAK.

Mr. **Ernst**. Mr. Chairman and members of the committee, my name is Lloyd Ernst. I am assistant to the manager of Basin Electric Power Cooperative headquartered in Bismarck, N. Dak. We want to thank our North Dakota Senator Burdick for the invitation to make this statement.

Basin Electric is a regional wholesale power supply cooperative organized and owned by 118 rural electric cooperatives in eight States of the Missouri Basin including the Dakotas, Minnesota, Iowa, Nebraska, Wyoming, Colorado, and Montana. These member cooperatives of Basin Electric serve the electric power needs of more than 1 million rural people. Rural electric cooperatives in our region have erased the artificial State lines that have in some instances slowed the development of rural areas. By so doing, our region benefits from wholesale power rates which are among the lowest in the Nation. This in itself represents a major step toward rural development.

Recognizing that this Nation needs to attack the problem of rural development on a regional and indeed a national basis, we strongly support the concept of S. 2223. We are pleased that this legislation is patterned after the Farm Credit Act which established this Nation's very useful and successful Farm Credit Administration. The institutions created by that act, including the Federal land banks, the intermediate credit banks and the banks for cooperatives have brought an unparalleled source of financing to the rural areas of our Nation. All of these institutions are today wholly owned on a cooperative basis by their borrowers. This has resulted because from the very outset, this system was structured to be controlled and ultimately completely owned by the user. Our farm credit system has had a healthy and beneficial effect on the availability of credit to the agricultural producers of America. Indeed, without such a cooperatively owned major system, it is difficult to try to say how high interest rates on the local level might have been over the years. I'm sure there would have been times when credit would have been extremely scarce if not completely unavailable in many of the local communities throughout the Great Plains region.

The new credit system proposed by this legislation, including the Rural Development Investment Equalization Administration, the Federal Rural Development Credit Agency, the Farm Development Administration and the Rural Enterprise and Community Development Administration, could become among the most significant and useful agencies in achieving the goal of recapitalizing rural America.

We sincerely commend the many Senators who have joined together in sponsoring this legislation, and we appreciate their deep concern and dedicated efforts in this difficult job of rural development.

There are, however, a few specific comments that we would like to make concerning this proposed legislation:

1. Under section 102, grant authority now restricted to water and waste disposal projects, would be authorized for other rural community development projects and the maximum amount of grants authorized in a fiscal year would be increased from $100 million to $300 million. We certainly support this broadening of grant authority. While water and sewage projects are very important in the community development process, there are other equally important projects that must be funded in order to create jobs and keep people in rural areas.

2. This legislation strongly, and in a number of sections, encourages regional or multicounty and multijurisdictional planning and development. This is a good approach. Just as rural electric cooperatives learned some years ago that problems of power supply and transmission must be approached on a regional basis to find effective solutions, so, too, many of the other problems of rural development are best attacked on a regional basis.

3. We are convinced that it is in the very small rural communities that development projects encounter the most difficulty in securing financing. Farmers Home Administration now restricts its housing loan programs to rural areas and towns under 10,000 population. The Rural Electrification Administration restricts the use of REA loan funds to serving only the farms and ranches and rural communities under 1,500 population. We believe this new legislation likewise should be directed at helping to solve the problems of the smaller rural communities. We question the advisability of redefining rural areas in section 105 of title I and in other sections to go so far as to allow Farmers Home Administration financing in cities up to 35,000 inhabitants. In other sections of the bill, rural areas are defined as towns or cities which have a population not in excess of 35,000 inhabitants. In most rural States in this country, a town or city of 35,000 inhabitants is considered a fairly large city and there may be only four and five cities in the entire State exceeding this size. Such provisions in this bill would seem to slant the emphasis and potential benefits away from the truly rural areas and small towns.

4. Section 104 of title I provides "No Grant shall be made under paragraph (2) of this subsection in connection with any project unless the Secretary determines that the project will serve a rural area which is not likely to decline in population. . . ." It would seem such a determination may sometimes be very difficult to make, and more important,

it seems unfair. Such a provision in the law could be the death blow for many communities.

5. We are pleased that title 2—Federal Rural Development Credit Systems recognizes at the outset that farming and forestry form the backbone of the rural economy and that these industries must be given financial support so as to adequately raise farm family income. We cannot overemphasize the matter of farm income and a decent level of farm prices. This above all is the most important and far-reaching requirement for rural development. Adequate and low-cost credit is vital to family farmers, but creating additional credit sources is futile, without attacking the problem of low farm prices which have persisted for so many years and driven so many thousands from their land and from the rural community to the city.

6. We strongly support the provision "it is the policy of Congress to meet a large part of the need for increased investment in rural areas by establishing a system of borrower-owned financial institutions. . ." This is however a very comprehensive (103 pages) and rather complicated bill. In some sections, it seems to us to emphasize using existing banks, savings and loan associations, and similar private financial institutions as first-line lending institutions. A better approach may be to provide for the establishment of new borrower-owned lending institutions at the first level where individuals and groups may go to borrow money for rural development projects and programs.

This would truly follow the example of the Farm Credit Act which established local production credit associations, Federal land bank associations and the district banks for cooperatives. This may have a better effect in holding down interest rates than would the alternative of simply working through existing banks and savings and loan associations and having their loans to borrowers insured by the District Rural Development Credit Agency or a similar body.

7. Section 709—Special powers. Pages 71 and 72 of the bill are not clear to us. This section would seem to allow loans for just about any purpose except electric or telephone utilities which are supported by Federal or State programs and are determined by the Federal Rural Development Credit Agency to have attributes of public facilities. We cannot understand why this seemingly discriminatory prohibition was included, and we urge that it be removed, if indeed this is intended to exclude loans to rural electric and telephone systems. One of the most serious threats facing the rural electrification program in this country today is the very real danger of economic starvation caused by lack of adequate low-cost loan sources. It is our genuine hope that this legislation, if enacted, will be another source of truly low-cost financing, which is our most important need today.

8. Section 710—Technical assistance is certainly deserving of support. This spells out very clearly that the Rural Development Credit Agency shall have qualified personnel to give technical assistance in a wide variety of rural development projects. It has been our experience that such assistance is greatly needed in rural development projects. We hope this is intended to include providing basic economic feasibility and engineering studies concerning specific projects and proposals.

9. Subtitle G would establish a Federal Rural Development Investment Equalization Administration. This section also provides interest supplement loans to public and private borrowers and rural development credit augmentation payments. A direct Federal loan program would probably be easier to administer and would seem to be a more effective way to keep interest rates low.

10. Section 1008. Tax exemption provides that the Federal Rural Development Credit Board, the regional banks and the District Rural Development Credit Agencies shall be exempted from Federal, State, and local corporate income taxes and from all other Federal, State, and local taxes. To help achieve truly low-cost financing for borrowers, we believe this is a desirable provision.

We mentioned earlier that this is not a simple legislative proposal. The organizational structure and various levels of agencies which would be created may make this a much more difficult act to administer than a simple, direct loan program such as the Rural Electrification Administration created under the REA Act. We recognize, however, that the purpose and services to be rendered by these rural development agencies are very numerous and broad.

We have tried to make an objective analysis of this bill, and the fact that we have raised some questions concerning various provisions should certainly not be taken as a lack of interest. We believe that what seem to us to be shortcomings could easily be corrected by amendment. This legislation contains many desirable provisions which can be highly effective in achieving a higher degree of rural development in this country. Indeed, this is probably one of the broadest legislative proposals dealing with rural development that has been considered by the Congress.

I have only one final comment. I understand that about 2 weeks ago, the price of Hard Northern Spring wheat fell to 96 cents from 99 cents in various communities throughout western North Dakota. This variety of wheat is generally acknowledged to be the highest quality produced in this country and probably worldwide.

As one who has long been associated with the production of wheat, it seemed impossible to me that in our lifetime we would again see the price of this basic commodity decline to below a dollar a bushel. Not since the terrible depression of the 1930's has this happened. It seems unbelievable that 96 to 99 cents for wheat should be repeated now in a period when all other prices, except those in agriculture, are at record levels of inflation.

Once enacted, properly funded and administered, S. 2223 could reverse the trends of history throughout the rural areas of this country. But unless we achieve significantly better levels of prices farmers receive for their raw products, we will be defeating the very worthy purposes of this legislation.

Again we commend the sponsors of this legislation, and we deeply appreciate this opportunity to state our views.

Thank you.

Senator ALLEN. Thank you, Mr. Ernst. We appreciate you giving us this testimony. And we appreciate the suggestions that you have made.

As the sponsors of the legislation have pointed out time and again, they solicit suggestions and recommendations. The committee, I am sure, would appreciate it, if you so desire, if you would reduce to writing the specific recommendations that you would like to make for the improvement of the thrust of the bill and its coverage. I assure you that the committee will give careful consideration to all of our suggestions.

Mr. **Ernst**. We will be happy to do so, Senator.

Senator **Allen**. I gather that in the main you support the concept of the legislation.

Mr. **Ernst**. That is correct.

Senator **Allen**. Making available for the needs of our rural communities, and for rural development, more funds obtained through a bank which will ultimately, according to its concept, be owned by the borrower that has its initial infusion of capital from the Federal Government but then turns to the private sector for lendable funds, you approve of that concept?

Mr. **Ernst**. I recognize that this is the common way that we administer credit programs in this Nation. As I mentioned, we also have direct loan programs. And in my view that may achieve a lower rate of interest. We feel strongly that the present very inflated interest rates have worked adversely in many, many ways, not only in rural development, but national economic development. And we would like to see the means, the machinery to achieve the lowest possible interest rates, and not just by subsidizing existing lending institutions whereunder the Federal Government put up the difference for a part of the interest so as to get the interest rates down to the borrower for a worthy need. That seems to us not to have the best influence on checking interest rates.

Senator **Allen**. In other words, you feel that to get the lowest interest rate the best way for the Government to subsidize such loans is for the Government itself to make the loans at a below cost interest rate?

Mr. **Ernst**. That is correct.

Senator **Allen**. But it would actually be six of one and half a dozen of another, would it not? And the disadvantage of the Government making the direct loans would be that that would be covered by—it would have to go in the market itself, and it would increase the debt limit that much, by the amount the Government borrowed on a direct basis.

Mr. **Ernst**. That is correct. Whether it is by FNMA or one of the other institutions like that that does the borrowing for the Federal Government, the interest rate has to be paid. The Federal Government can, however, borrow money cheaper than another agency or smaller agencies of the Government can. And using this technique would be better, therefore. But perhaps an appropriation creating a revolving fund—the Federal Government, we must understand, still gets most of its money interest free from taxation. And probably putting some of that into a revolving fund program, where it is loaned out and comes back in and out again—and I know this takes some time to get started, but that is one way to check interest rates.

Senator **Allen**. You feel that there are credit needs of the rural community, credit needs if the rural areas are to be developed, that are not being met?

Mr. **Ernst**. That is correct, Senator.

Senator **Allen**. And whether we go the concept of setting up an institution which can borrow from the private sector, or whether the Government itself will get into the business of making still more loans through its existing agencies, you feel that lendable funds should be made available also?

Mr. **Ernst**. That is correct.

Senator **Allen**. And do you feel that the rural development bank contemplated by S. 2223 is a sound approach, and it will make funds available?

Mr. **Ernst**. That is correct.

Senator **Allen**. Now, would your co-op be eligible for loans?

Mr. **Ernst**. I understand that it would not under this bill—it seems to me that there is a specific prohibition in here that would restrict the agencies from making loans to electrical or telephone systems which have, as they call it, attributes of public institutions, I believe, and are supported by one or another public program. The unfortunate thing about that is that REA, the USDA's agency, is very limited, even with the greater appropriation this year or substantially greater. And we are most appreciative for that increased funding. But even with that the rural electric program in this country faces capital starvation in the years ahead.

Senator **Allen**. You feel, then, that the electric cooperatives, including the wholesale electric cooperatives, should be permitted to borrow from the bank?

Mr. **Ernst**. I believe that is correct.

Senator **Allen**. I am sure that recommendation will be taken into account.

Mr. **Ernst**. I think it is a good approach for the co-ops to have more than one system available as a means of securing capital. True, the co-ops did organize the Rural Electrification Finance Corp.—CFC. But CFC is very limited in its capital resources, and the extent to which it can help meet the needs of the rural electrics throughout the Nation. So this should be very seriously considered, that under this legislation another way for rural electrics to achieve financing could be realized.

Senator **Allen**. You make an extremely valid point when you suggest that no matter how much money is made available for loans, if we do not have a sound agricultural economy, we cannot develop rural America. That is certainly a must, that is the platform on which all development must be built, is it not?

Mr. **Ernst**. That is correct, in rural areas certainly.

Senator **Allen**. So then you would feel that the lack of job opportunities and the lack of proper community services are some of the cogent reasons for the outmigration from the rural areas?

Mr. **Ernst**. That is correct. As farm units are consolidated, certainly in our region, at a rapid rate, for these people that move off the land—there is no opportunity in the small towns, there is not even any more opportunity in the towns of 35,000, and they are moving to the metropolitan areas, and bringing more problems to those areas.

Senator **Allen**. You would feel that this legislation might serve the dual purpose of creating job opportunities plus enabling the smaller areas to provide better community services.

Mr. Ernst. We believe that.

Senator Allen. I note also that you approve the concept broadening the grant authority to allow more community development services to be eligible for grant than merely water and sewer systems.

Mr. Ernst. That is correct.

Senator Allen. Also you approve of the multicounty or multijurisdictional approach that is contemplated by the legislation.

Mr. Ernst. We do. And we have experienced this directly in the rural electric program, where we have, as I said, erased State lines, and plan on a regional basis now. That has benefited the consumer with low-cost power.

Senator Allen. You seem to feel under your statement that the definition of a rural area, including communities up to 35,000 population, goes beyond what is really a rural area. And the thought would be that the money would be sopped up by areas that are really not rural areas.

Mr. Ernst. That is absolutely the way I feel. It seems that we have got programs that operate in the larger centers like the 35,000 or even 20,000 and below. There is urban renewal to help solve community problems. Programs of HUD, the housing programs of HUD that do not extend to the rural communities extensively. There are other agencies that help the larger towns that are just not there for the smaller towns in the rural areas. So, it would have to be my recommendation that we look at the definition of a somewhat smaller size, fearing that the $300 million that we provide here could quickly be utilized to serve larger towns. We are talking about needs in terms of dollars far greater than would be available under this.

Senator Allen. And what would be the maximum population numbers you would recommend for that definition?

Mr. Ernst. We took no exception to Farmers Home redefininig their authority to towns up to 10,000, or something thereabouts. I think when you get to a town of 10,000, you encounter problems that are very similar from there on down.

Senator Allen. So that would be one of your recommendations to the committee?

Mr. Ernst. That is correct.

Senator Allen. Now, I note also that you object to section 104, title I, saying that no grants shall be made under paragraph 2 in connection with the project unless the Secretary determines that it is going to be in an area that is not likely to decline in population. I can certainly see your point. It might be that the grant itself would prevent this decline. It might decline without it, but with it it might not decline.

Mr. Ernst. That was exactly my first reaction when I read that provision. It may be just the grant that is needed to help that little town, whether it is for a public facility, a school improvement or a community program of one kind or another; it may prevent the death of that community, and the disruption of the lives of several hundred people.

Senator Allen. The project could revitalize the community, could it not?

Mr. Ernst. That is correct.

Senator Allen. It might be that the committee would want to give thought to changing that. It may be that the star print has already made that change.

Mr. Ernst. Senator, I would like to study the new draft. And I appreciate your invitation to consolidate our points in a letter. We would like to reexamine that section and try to fit that into our letter.

Senator Allen. That is fine. We will be delighted to hear from you; in fact, we look forward to it.

Now, I note that in hearing from the various witnesses we have some witnesses who say, this concept is fine, but we feel like you ought to operate through existing Federal agencies. Your position apparently is just opposite of that, that it ought to be a new system, and a new place of business, new offices, new agencies, new personnel and a new program rather than to fit it into some of the existing programs, or to work with existing lending institutions, for that matter.

Mr. Ernst. I might go back—I talked about creating first loan agencies—where the ultimate borrower goes to get his loan. In creating institutions that are owned by him similar to what we did under PCA and the land banks, and that is in my judgment a way to help keep the costs lower to the borrower. I thought of recommending that we adapt the existing PCA's or land banks to serve those purposes. However, I concluded that it was outside of certainly my purview to try to recommend such extensive changes in the structure of those agricultural credit institutions. I do not believe that the institutions, firstline institutions we talked about as needing to be created, would necessarily mean a lot of employees. I don't think these would have to be created in every county—and the idea is expressed about utilizing multicounty jurisdictions under economic development administration provisions—using those as firstline lending institutions, as I interpret the language—and I could be wrong on that. I would certainly think that is a good idea, because that would have the semblance of complete control by the users, the public, and, therefore, should have a good effect on interest.

On the regional levels, I just do not know of any present regional authority or agencies that could be adapted. Therefore, I think the new ones would have to be created if indeed we go in a direction other than a direct lending program. If we had a direct lending program such as Farmers Home or REA, you would need only the one level in Washington on the national level, and then working directly through these multicounty jurisdictions, or similar bodies. This would seem to me to minimize the bureaucracy that is created, if I can use that term. There are many approaches to this. We are pioneering, in a manner of speaking. I am sure it is going to have to be carefully evaluated, which is the best way to go.

Senator Allen. Thank you very much, Mr. Ernst. We appreciate your giving us the benefit or your views. And you have made a very valuable contribution to the record.

We are delighted that Senator Burdick invited you to appear before the committee. He is one of the sponsors of the bill, and has already appeared and testified in its behalf. And we believe that he arranged for the testimony of a very fine witness.

Mr. Ernst. Thank you, Senator.

Senator ALLEN. We appreciate it, sir.

Mr. King, I understand you have a plane to catch, and also that you wanted Senator Humphrey to be here when you gave your testimony.

Mr. KING. That isn't quite true. I am awfully glad to have the opportunity to meet you. And I know Senator Humphrey, so it is a plus to testify with you. He did ask that I holdover until today.

Senator ALLEN. We can holdoff.

Mr. KING. If it is all right we will testify. If I don't make my plane I will go home later.

My testimony is not too long, and if you would like to ask questions afterward, or to interrupt——

Senator ALLEN. Will you proceed, Mr. King.

Before you begin, Mr. King, I would like to insert in the record a letter the committee has received from Senator Stevenson of Illinois in regard to you.

(The letter referred to follows:)

U.S. SENATE,
Washington, D.C., September 24, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee,
Committee on Agriculture,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: The hearings that you are conducting on the Rural Development Act are extremely important. In this regard, I was pleased to note that you have invited Mr. Wilson King, of Rock Falls, Illinois, to testify.

Mr. King served as a distinguished farmer on the President's National Advisory Commission on Rural Poverty that produced the excellent Report, "The People Left Behind." Even more important is that since that Report, Mr. King has taken it upon himself to encourage the implementation of the Commission's recommendations by institutions and agencies in the public and private sector at the federal, state and local level.

Mr. King has been a close friend of two generations of Stevensons, and I know that he will make a most significant contribution to your hearings. I regret that because of long standing schedule commitments to return to Illinois on Friday, I cannot be present during his presentation before your Subcommittee.

With best wishes.

Sincerely,

ADLAI E. STEVENSON III.

STATEMENT OF W. WILSON KING, KINGLORE FARMS, ROCK FALLS, ILL.

Mr. KING. Mr. Chairman and members of the subcommittee, I thank you for the opportunity to testify today before the Rural Development Subcommittee.

Mr. Chairman, may I commend you and the subcommittee for not only recognizing that our problems of this Nation that are social and economic, are not just the problems of the cities alone, but of all America, and that you intend to do something about them. I think, as you probably know, I am a farmer, a family farmer. That it is my only occupation.

As a farmer, I would like to speak out this morning on behalf of legislation providing and generating capital for rural America, to attain balanced national growth.

As a member of President Johnson's Rural Poverty Commission, I spent a year and a half in study and holding hearings across rural America, and our Commission wrote the report, "The People Left Behind." From this background and other experiences and as a farmer, I would testify and substantiate my endorsement of the Rural Development Act.

Mr. Chairman, as you are probably as well aware as I am, in the past 150 years, we came from a 95-percent rural population to a 95-percent urban population. That transition has been one of the real strengths of our Nation. A background of learning to work—being responsible for some chores at an early age, willing to get in that extra load of hay before quitting. They came to cities with the philosophy of the farm background that embraced motivation, recognizing and assuming responsibility—the qualities that soon found many of them our leaders in business, industry, the professions, education, religion, and politics.

Without a policy or plan for this transition, up to World War II, in retrospect, it was a reasonable and orderly transition. Since World War II, the migration of the people from our farms and rural America to our cities represents one of the most massive migrations of human resources ever recorded.

Because of this massive migration, the cities had and have their great problems, dealing with rural migration.

A balanced national growth policy must be a national approach. Not a State-by-State or a city-by-city approach. May I give an example.

Senator ALLEN. If I may break in, I have been very interested in the testimony of the various witnesses. One testified, as I pointed out a moment ago to Mr. Ernst, that we ought to use existing agencies in providing this credit. He was arguing that we ought to have a brand-new, wipe-the-slate-clean approach to it. One of the witnesses earlier this week was testifying to the fact that the outmigration from the rural areas was bringing to the cities the unemployed and the unemployable. And another witness was testifying that the cities were finding it hard to survive the outmigration from the rural areas. And another said that the rural areas were exporting the young people with the best skills, the best talents, the best abilities. One taking one approach and one the other. And they are both right. But the rural areas are not only losing the people who have lost jobs on account of the change in the agricultural economy, they are losing the high school graduates, the college graduates, who are not able to go back home and find jobs. They are losing the very best of the young people as well as the people who have lost their jobs through a change in the economy. It is interesting how one witness will take one view and one another. But certainly, both approaches are correct, is that not right?

Mr. KING. Both approaches are correct. And there have been advantages and disadvantages. And I think maybe I can point this out.

Please continue to interrupt any time you would like to.

One of my former colleagues on the Rural Poverty Commission, Dr. James Bonner, of the Department of Economics at Michigan State University, gave a report to the Minneapolis Farm Forum. He sent me a copy of it, and I take the liberty of retelling what he said.

Dr. Bonner reported that after the riots in Detroit several years ago, a prestigious New Detroit Committee was formed by influential citizens to rebuild Detroit, and create jobs for the hard-core poor. These gentlemen worked hard and long with local business and industry. About 55,000 new jobs were created.

A survey was taken after this tremendous effort, and the project was completed, and Detroit had a slight increase in unemployment.

Everyone had written and had passed the word back to the homefolks to come to Detroit, as there were jobs there for them. It is like dipping water out of a rowboat with a tomato can, when it is leaking in by the bucketful.

One city cannot solve this problem alone.

Mr. Chairman, I am especially pleased with the concept; and I, being a farmer and a layman, do not want to get in the mechanics of how the bill was written or the terminology, because that is not in my area of knowledge, but I am pleased with the concept of the Rural Development Act for tapping the money markets for rural development.

Very soundly, it encourages and gives rural America the opportunity for the capital generated there, to stay home, instead of being sent to the financial centers of the Nation for investment.

That is a concept that I am very much in favor of. If you or I or anyone in the country can save a thousand dollars, and we take out insurance policies, mutual funds, stocks, and so forth, the money is sent to the centers of the Nation, and then it is decided how it will be invested. And I think that concept to keep the money home for investment is very good.

Senator ALLEN. One witness pointed out that this was a problem of gathering in the resources. As it is now, small rural banks cannot finance the needs of the community. But by this process of gathering it in, and concentrating it, then they can act in these areas where credit is needed.

Mr. KING. I think that is very important. I believe I read in "New Frontiers in Finance" that 75 percent of our Nation's new creative wealth is created by farmers each year, and that again emphasizes what you just said. If we could gather it in and keep it home, it would be to our advantage.

Mr. Chairman, may I urge that you and your subcommittee continue to take the lead in redirecting and slowing down the exhilarated flow of capital and human resources from rural America. As a family farmer, I have rededicated my efforts on behalf of the family farm. I do not know how to divide the selfish aspect of wanting to be a family farm operator from, hopefully, my desire to help all America, and my son would like to stay as a family farmer, and my grandson would have the opportunity.

The American family farmer is the most efficient food producer in the world today. Many people in urban America think the problem of the farmer is the farmer's alone.

But the 95 or 96 percent of Americans have a great stake in the family farm. We produce food for 16 percent of America's take-home pay. The nearest to that is Canadian farmers—there it is 33 percent of take-home pay. And I think to generate support for your bill, S. 2223 it takes people like yourself, Senator Humphrey, men who are able to attract the newspapers and get the headlines, can sell the American public on the idea that this bill is important, that the family farm concept is important for their well-being. Wilson King, a farmer from Montgomery Township in Illinois, gets no headlines. But I can only urge men like yourself on the Agriculture Committee who have the national forum—I think it would generate legislative support on behalf of this bill. And I am amazed and pleased that so many Senators have cosigned this bill. And I think that is indicative that some lessons have been observed recently.

If the family farm slips by the wayside in the next decade or so, America will have lost one of its social and economic cornerstones.

Nearly everyone's offhand suggestion for rural America is, "To bring industry and factories into the country." We can all agree—rural America is still pretty well populated with small industry—the family farm. There is six or seven workers in rural America, serving directly each farmer. And I would hope my speaking out today—and I do not want to belabor the point—in behalf of the family farm would be the main thrust of my testimony today.

The family farm survival depends on two factors, adequate farm income and the availability of the increasing need for capital each year. Today we are addressing ourselves to capital needs. Adequate farm income has been touched on, but that is certainly a large subject in its own, which I do not think it is for us to get into in this testimony of mine today.

I have with me the current issue of Top Operator—published by the Farm Journal. The feature story is, "Where to look for that extra $60 billions farmers will need in the seventies."

This article is good from the standpoint that spokesmen in the agricultural economy are aware of the need of capital in the future. Its suggestions run the gauntlet of sources of capital from rich uncle—the conventional sources of capital—production credit, the Farmers Home Administration, and so forth. And many times they are too minute. And yesterday afternoon and this morning I heard many stories about the limitations of that source of credit, which I do not need to go into, to the suggestions of going public with stock. It has no sound or planned solution that I foresee the Rural Development Act would provide capital in the next decade.

To go a little further—and I have written this in, it is not on there—the projection of 100 million more people by the year 2,000 is a challenge for food production. The family farm can and will meet that challenge if its energies and its time and talents are not dissipated in trying to raise capital, but we can get on with the job of production. That is not on my written testimony. I wrote that in. But I think that is important.

The lack of capital is a real deterrent to the family farms' survival and the transition from one generation to another. And I am sure, Mr. Chairman, that with your extensive background you know the story of the family farm going from one generation to another. And you probably heard friends or had constituents say something like this: "It was the saddest day in my life when the family farm was sold, but I just could not swing it financially to pay off my brothers and sisters, so I had to go to the city." That is a sad story. And the farmers themselves are a little bit to blame. Most fathers and mothers do not plan for that transition to make it easier for the son or daughter who stays home and helps pay off the mortgage and helps keep the old folks and reward the one or two who stay home with the family. So, there is some blame to be placed on the farmer family.

However, there is no other segment in the business economy that has to refinance itself every generation like the family farm, and now like the family farm is getting larger, the acreage is greater—and there should be some leadership there. I will not go into that unless you want me to.

Mr. Chairman and members of the subcommittee, I would like to give you a factual report on a little industry in my small hometown, and how it relates to helping Rock Falls, Ill., try to be a viable town in rural America.

In the 1890's a nut and bolt shop was started in Rock Falls, to supply the then new and growing farm machinery community of Rock Island and Moline, Ill., 50 miles west. In 1907 it was purchased by Russell, Burdsall, and Ward, and is still a nut and bolt factory, employing 400 workers. I asked that plant manager to give me a breakdown on direct sales to farm equipment accounts, and what it meant to Rock Falls.

They average 250 tons to farm equipment manufacturers a month. That supplies full-time employment to 50 employees, $355,000 in personal income, $160,000 in retail sales per year, $115,000 in bank deposits, and are responsible for 35 other workers employed. The fact that this industry has found Rock Falls a profitable selling place in rural America these many years, gives us the benefit of a total of 400 employees. And I multiplied 400 employees by the amount that 50 earned, and it amounts to about $2,840,000 payroll in our little community. I give that as sort of a tangible example of that.

It is not unreasonable to project and assume when capital is available for our towns and small cities to provide adequate schools, health facilities, recreational activity, good transportation, the possibilities that industries will be outmigrating to these communities.

Mr. Chairman and members of the subcommittee, the best Rural Development Act you and your colleagues can possibly write will succeed in direct proportion to the leadership we have on the home front.

May I give you another story. I am sure you will have a very close correlation to your areas in your respective States. When we were holding our Rural Poverty Commission hearings, the late Congressman Joe Resnick testified and told this story about his congressional district in upstate New York.

The Congressman's district was composed of Dutchess, Ulster, Columbia, Greene, and Schoharie Counties. Dutchess County was a boom county—with large IBM factories there, Ulster and Columbia were average. His two north counties of Greene and Schoharie were officially classified as depressed counties. They had more population during the Civil War than they did that day. Schoharie had the highest unemployment, highest illiteracy rate, and the lowest per capita family income in the State of New York.

Congressman Resnick conducted a survey of his district. Of all Federal funds, loans, and grants that were available that came into his district, only 15 percent went to the two depressed counties, because they lacked the leadership, expertise, and money to make feasibility studies, et cetera.

It is sort of like the old saying, "The rich get richer and the poor get poorer." I would urge the subcommittee to give this serious thought. The Farmers Home Administration had lots of comment. And I guess I will read my short paragraph on that, too.

I served 6 years on the Illinois Farm and Home Administration State Committee. I found that the personnel of the Farm and Home Administration, by their philosophy and training were a real source of leadership. If this personnel could be expanded—and I have heard many versions of this here today—to serve and counsel the part of rural America that needs the expertise and professional guidance, it would be one of the possibilities of filling the void of rural American leadership. John Baker handed me a press release of Chairman Bob Poage in the House. And he also has a paragraph that specifies the Farmers Home Administration as the vehicle for leadership, and so forth. I have not had a chance to read the bill. Maybe you have read it.

Our land-grant colleges have done a tremendous job of making better and more efficient farmers out of most of us. May I suggest we farmers share more of their services we enjoy so the Extension Service could put more emphasis on this area of rural America where "the people have been left behind." It is my observation where they have moved in this direction it has been effective leadership.

Two weeks ago about 40 men met here in Washington—I guess you were not chairman yesterday when Governors Breathitt and Thiemann testified—on the invitation of Governor Breathitt of Kentucky and former Governor Thiemann of Nebraska, we formed a coalition for rural America.

May I quote Governor Breathitt:

> As members of a rural coalition, we hope to serve as catalysts in developing a rational policy of balanced national growth. We hope to spur economic growth, and try to mobilize citizen pressure to revitalize decaying communities in order to halt the exodus to the cities and attract today's city dweller to the robust rural centers of tomorrow.

I was a young farmer when we were emerging from the depression—and I guess you and I are about the same age, Mr. Chairman, so you can think back to those years—the political and economical wise were saying, "Depressions are farm bred and farm fed."

I would like to update that old saying for the subcommittee today and say, "The social and economic problems of our cities today are farm bred and farm fed."

To summarize what I have been trying to say this morning, I strongly endorse the goal that is a blend of well-organized and viable towns and villages, each with its own jobs and industries, its own recreational centers, and with a balanced national growth sharing in the national prosperity.

We all have seen hundreds of bumper stickers, and there are a very few that most of us would want on our cars. I have one exception that I brought along, and if I ever get another I am going to put this one on my pickup truck (exhibiting sticker that says, "I am proud to be a farmer").

I am also proud to have the opportunity to testify before your subcommittee today.

I will be glad to try and answer any questions.

Thank you.

Senator Allen. We are proud and honored to have you come before the committee and give us the benefit of your views and the benefit of some of your philosophy, with which we certainly find ourselves in agreement.

I noticed in your concluding remarks a statement that I feel is significant. And that is that the problems of rural America are not only the problems of rural America, but they have a great effect on the problems of urban America, and that if we can solve the problems of rural America, if we can stop the outmigration from rural America into the large urban centers, that we will thereby solve many of the urban problems as well while solving the rural problems.

Mr. King. When we visited a minute ago about too many coming in and the leadership coming in, I think you and I would agree that up until World War II it was a reasonably balanced migration. Everybody could not stay in rural America that was born there for the sake of progress and the growth of our country. And we did contribute as farm people a greater percent of leadership, I think, than the number would maybe justify. But I think it was an orderly transition, and I think it was the strength that developed our country. But it has been since World War II that it has gotten out of balance. It was a tremendous migration in the agricultural revolution, and the upheaval of things got out of balance by far, and there was a tremendous movement of rural people who came into our cities ill trained and ill equipped. And the universities, as I alluded to, helped many of us become more efficient farmers, which entailed larger family farms. Industry and small community business did not develop fast enough to absorb the people. They went to the cities—just as I mentioned about Detroit, when the word was passed back to the home folks, they flocked to Detroit, and to every city. And so after World War II it got so out of balance, and that is when the problem developed—the cities were not prepared for this tremendous influx of people. And I have to be careful how I say this, but they really were not prepared for the sophisticated economy and job opportunities in the cities, they were not the kind of people that in many cases, you would want. And so they had problems. I hope I said that as gently as I could.

Senator Allen. I know what you mean.

I was certainly interested in your comment, too—and maybe people do not realize this—it is nice to have you put in words that while we are looking for industry for our rural areas, we do so often overlook the fact that we have many small industries in our farms. We certainly want to preserve the institution—and it is an institution—the institution of our family farms. I was very interested in your comment that to preserve our family farms we have got to first have a sound agricultural economy with decent prices for the produce of those family farms, and then with the greatly expanded need of credit resources, the full credit needs of the family farms of rural America must be met if we are to keep the institution of the family farm.

Mr. King. If the projection is correct of 100 million more people by the year 2000, which is not too many years away for our younger people, just think, the capital demanded—you and I certainly cannot visualize the present setup of available capital ever being able to support the expansion in that direction. And I am thinking of our country geographically, being a beef cow and calfman—the West is pretty well populated—I am thinking of beef—we eat 115 to 118 pounds of beef a year. You multiply that by the population increase, and where are we going to get it?

There is one place they can go. Alabama, Tennessee, the Carolinas, Georgia, Mississippi, and Arkansas; there is land, water, climate and people there. It takes a tremendous development, but that is where expansion can come. It takes capital, but there is great opportunity in the southeastern part of the country in that category.

Senator Allen. Well, we are availing ourselves of that, and it is developing by leaps and bounds.

Mr. King. It makes your heart squirm to see what is happening, with a hundred million more people.

Senator Allen. I was interested, too, and I certainly agree with this—and I may not be saying it just like you said it, but I feel like what you were suggesting was that the institution, the family farm, is a whole lot more than the economic aspect of the family farm as a small industry, as helping build a sound economy. It is a political and a philosophical force in this country. And the philosophy that we find at the grassroots is part of the philosophy that has made our country great. We certainly want to keep these family farms, one of the byproducts of which is a philosophy of hard work, and free enterprise, and rugged individual system, and self-reliance. We are too much in danger right now in this country of losing a lot of those precious qualities. We certainly want to keep the family farm as a breeding ground for those great values that we feel that the Americans——

Mr. King. You said it better than I did. And I appreciate that you agree with me. That is complimentary. But I sincerely believe that.

And I am reluctant to bring in family things, but I have three sons, a farmer son, a Navy son, and a businessman son. And the businessman son started when he got out of college in Sears and Roebuck, and has been working with them. He has told me many times, "I am sure glad you taught me how to work."

Senator Allen. That is wonderful. I am sure that all of your sons are fine young men.

Mr. King. I do not think they can say anything that will please me more.

(Discussion off the record.)

Senator Allen. Thank you very much, Mr. King. I appreciate your testimony. I am sorry that Senator Humphrey was not here and I know he will be sorry he missed you.

Mr. King. We have had a good visit, and I have enjoyed it. And I have added a new friend to my acquaintance. So there are lots of pluses to it.

Senator Allen. Mr. Wesley Watkins.

I understand Senator Bellmon, our distinguished Senator from Oklahoma, our good friend and member of the committee, invited you to appear before the subcommittee and give us the benefit of your views. And we appreciate your coming. And we look forward to hearing your testimony. And we know that the testimony will be of great benefit to the committee in its deliberations.

And as the sponsors of the legislation have said, they are looking for and welcoming suggestions on ways to improve this bill. And they have the thought of providing more credit for the development of rural America. And we feel like you can do the same thing. We welcome your statement.

STATEMENT OF WESLEY W. WATKINS, EXECUTIVE VICE PRESIDENT, PERDUE INDUSTRIES, CHICKASHA, OKLA.

Mr. WATKINS. Thank you, Mr. Chairman. And let me express my very sincere thanks for the privilege of being here.

I am Wesley Watkins. I am a businessman from Oklahoma. I am with Perdue Housing Industries.

I would like to apologize because I do not have a prepared text. I was in town on other business, and while here, went to visit my good Congressman, Carl Albert. Also I was visiting over in Senator Bellmon's office, and Carl Williams, who knows of my genuine and sincere concern about rural America and rural Oklahoma, asked me to stay over and testify.

Senator ALLEN. We sure appreciate your doing that. And some of our very best testimony has been ad lib, off-the-cuff remarks.

Mr. WATKINS. And I would like to say, sir, that I hope we can have an informal discussion—and feel free to interrupt at any time and make any comment. I know the sincere concern that you have, and I have it too.

I might say, I had a lot of business I needed to care for in Oklahoma. However, because of my deep dedication to rural America and to rural Oklahoma, I canceled it to be here one more day in order to appear before you. And I hope that I have a few comments or maybe a few suggestions that might be helpful from a layman's standpoint.

In the beginning of my remarks, I would like to make a prediction. If we can get this bill, S. 2223, or a similar bill passed, we will not only keep the family farm, but we will rebuild the family farm. I am most urgently asking for the passage of such bill, because I know my personal benefits from the family farm. I am a farm boy from a small community in the Third Congressional District of Oklahoma, the little town of Bennington. I would like to speak to you, if you do not mind, from a personal standpoint, so you will know why I am dedicated to this movement to help build rural America—which is evolving later than what it should be.

You are probably familiar with the Arkies and Okies movement to California. I was a youngster at that time. My family made three different trips to California before the war and during the war trying to find employment. It was after the depression, of course; and in our area of the country people had not rebuilt and had not been able to pick themselves up by their bootstraps. And I did not realize at the time that because we were so poor that we were moving to "ghettos" in Oakland, Calif. But I went back and looking at our old apartments, and I realized that was exactly where we were living.

Also I might say that probably the deepest imprint on my mind today, and on my heart, is an experience I had as a youngster, 8 years old. I was living in this small rural community of Bennington, Okla., out on the family farm with my mother. One day in 1952 our neighbor came driving up in his pickup, up the long lane. His pickup was loaded down with all the furniture, his mattress, and so forth. He pulled up in front of our yard there and he hollered at me—his name was Mr. Hamilton—he said, "Wes, is your mother here"?

And I said, "Yes, she is."

I hollered for my mother. Out in the rural areas you do not get in trouble for hollering.

And I noticed that he had taken the chicken coops off of his pickup.

When my mother came to the front yard he said, "Mrs. Watkins, I would like for you to have these chickens. I am moving to California."

And I remember a remark I made to Mr. Hamilton at that time, because I knew his children very well, we were close friends, we worked in the fields together many times—I asked Mr. Hamilton this question, and I will never forget his answer: I said, "Mr. Hamilton, do you not like to live in Bennington, Okla.?"

And his answer, Senator, was this: "Wes, Bennington is a wonderful place to live, but it is a hell of a place to make a living."

And since 1952 as a youngster I have had this imprinted on my mind. I have dedicated my time and efforts to go on through high school, and when I graduated from high school to go on to college, Oklahoma State University, and major in agriculture, and to return to rural America and to rural Oklahoma to help build it.

I would like to echo your sentiment on the family farm: I think we will rebuild them.

I would also like to say that it has been great that we have placed emphasis on production in agriculture and the commodity approach. But I would say this: We have not been encouraging in rural areas the development of business and industry.

I might mention also that all the way through college I did research and burned midnight oil trying to think of ways to develop rural Oklahoma.

While I was working on my doctor's degree at Oklahoma State University I wrote a paper entitled "The Need of a Multi-County Organization for the Economic Growth of Southeast Oklahoma." I was fortunate enough to come to Washington in 1963 to work on my doctorate at the University of Maryland, and I presented this paper to some of the people in the Department of Commerce. And I am pleased to say that in 1965 Congress adopted the Economic Development Act of 1965, which included many of the same concepts that I had proposed in my paper. I believe in the multijurisdictional approach in trying to solve the problem. You have to build an economic base, a tax base from which to work; and unfortunately most rural areas do not have this.

Something very unfortunate was pointed out to me in a survey that I made in my home area of southeast Oklahoma. I made a survey of the high school graduates from many rural communities. Many had gone off to Dallas, to the west coast, to the big cities. From this survey 96.6 percent of them would like to come back home if they could only find a job. They would like to raise their family there, because they think it is a better way of life.

Because of my agricultural background and education, I am not putting in second place the emphasis on the production approach of agriculture—but I think the key to rural development, Senator, is job development.

I agree with Mr. King wholeheartedly about the family farm. But unfortunately, we have not been able to keep our young people there, they have to keep on going away to find other jobs.

I think we should think along these terms: What vehicle or what means can we approach this job development and return industry into our area, or let it expand into rural America?

I say "our area." I hope you will accept that, because I feel very close to rural America.

Let me mention several things from research that I have done when I had the privilege, Senator, of being one of the first executive directors of an economic development district in Oklahoma. It was my privilege to serve in my great southeast part of the State. I enjoyed it very much. One of the things we needed most in southeast Oklahoma was homes. This was the main reason why I went into the homebuilding business. We must have more quality homes today if we are going to return people to rural America. Senator, people will not come back to an outdoor John, and I cannot blame them.

I did quite a bit of research and analysis of our area, and I would like to point out to you some of the problems and needs that we found. And incidentally, let me say this: I would like to commend the Congress, because they have seen and have acted on many of these.

One of the greatest needs, of course, is water supply. Through a great job by Farmers Home Administration, more water is available. This is one of the greatest developments since rural electrification. And I think it will have as great an effect on America as rural electrification. One problem I have seen in this area of development is that I wish they would build their lines for future growth instead of just the population that is there right now. Many subdivisions are impossible to develop because they do not have the line large enough to serve this area.

But we are moving forward. And I would like to commend your committee and others that have done a great job here.

Sewage disposal systems are needed greatly. And I know that is true in your community of Alabama as well as in many of the communities of Oklahoma, Senator.

The third need that I would like to elaborate more on, Senator, if I may, is housing. Housing is something that will also help build a tax base for the schools. For instance, in the little town of Checotah, Okla., right outside of Muskogee about 20 miles, we have built something like 50 homes. I drove by there the other day, and I noticed they had some metal buildings erected as additional buildings to their schoolhouse. They have not expanded industry there in Checotah, but the people are living there and working in Muskogee and Fort Smith and other areas, in order for their children to be raised in this small community. It has created a little problem. But we have helped build a tax base, because those homes are going on the rolls as new homes.

Perdue Housing Industries has a great social conscience. Yes, we are interested in trying to help build our company, but we have a social conscience also. This makes the third or fourth trip I have made to Washington to discuss with Carl Williams here, of Senator Bellmon's office, and Congressman Carl Albert's office, and others, the needs and changes in regulations that would help build rural America and rural Oklahoma.

I am proud to say that it was our leadership that allowed the Farmers Home Administration to put into effect the packaging conception of housing. This was an idea from our company.

Also, our company was the first to propose the increase of Farm Home to serve 10,000 population. Now the question has been raised of increasing Farm Home population limits to $35,000. In talking to the Administrator of Farm Home about this several months ago, I encouraged at least 10,000, and possibly 15,000, or more. In many of these rural communities it is impossible, Senator, for a person to get financing for homes and other things, because they do not have savings and loan companies. Therefore, they have to turn to some other means of financing. And other means are not there.

The third thing that we suggested, and we are real pleased that the Farmers Home Administration adopted, is that anyone who is living in a city or town of population of 10,000 or more can get a home loan through the Farmers Home Administration if they move back to a rural area.

In the past we helped build ghettos, because our people could move from the country to the city and get financing for a home, but they could not get back out into rural areas and finance a home. I was glad to hear Senator Humphrey making this point yesterday.

Senator ALLEN. There are more slum dwellings in the country than in the urban areas. They just do not get the attention by the news media.

Mr. WATKINS. That is correct.

Senator Humphrey also asked a question yesterday which I want to comment on: he asked, why is it that people cannot finance homes outside of the cities?

I think the Farmers Home has helped solve this problem to some extent. But savings and loans companies tell me this:

> We do not want to take the risk. We make all the loans we want to within 15- or 20-minute's drive from our office. Why go 100 or 150 miles?

Senator ALLEN. If they had a more liberal attitude it would help solve some of the problem, would it not?

Mr. WATKINS. Yes; it would. And when you get out into rural areas, if you are able to get a conventional loan, the poor farm family or the families in these rural areas have to come up with 20 or 25 percent to try to buy a home. It is usually an impossible task.

These are three things that our company, because we have a social conscience, has spent a lot of money out of our own pocket to get adopted.

Another thing that I think is needed—and which I like to recommend, if I may: There is a need for more Farm Home personnel. They are doing more than just the farm operating loans that you and I are acquainted with in the past. They are working with water districts, sewer districts, and many other facets of homebuilding. They are becoming more involved.

We have tried to help streamline the homebuilding program by using the packaging approach. Our company personnel fill out the application "package." We have relieved Farm Home and its clients of quite a bit of time. Before we started this service, it was evident to me that many potential homeowners did not know how to fill out the applications; and, therefore, they would say, to heck with the new home.

Another thing I would like to encourage would be at least a statewide standardization of appraisals for homes. In Oklahoma we have 77 counties. These 77 county supervisors are worked to death. They cannot keep up with the price of lumber, with the price of plumbing, the price of electricity. But we could set up in each State office a section for appraising so that they could appraise the construction materials in the home, send the application to the county Farm Home supervisor who could go out and look at the home building site and put a value on that. The two appraisals would be your value of your total home loan. Right now the county supervisor does all of this. I think if we take this one step this would relieve him of considerable time. Just like the packaging program: this is basic. But it could do a great deal in building homes in rural America.

Another thing that I would like to encourage would be to change the legislation to allow a higher priced home to be built in rural America—at least to the limits of what the Federal Housing is allowing in 235 right now in Oklahoma. We are not allowed to build a home in rural Oklahoma that is even equivalent in price to the Federal Housing 235, which is for the low-income people in the cities or towns who meet Federal Housing requirements. I think that is unjust to our rural people. And I would like to highly recommend that the minimum that Farmers Home looks at, at least be the extent of what Federal Housing is doing with 235; that is, going up to $18,500 for three-bedroom homes, and for four bedrooms to $21,000. Most of the home loans under Farmers Home are $14,000 or less. Also this is a key, I think, to helping build the tax base.

The fourth thing I would like to mention is that while Farmers Home has made giant strides in becoming more progressive across the Nation concerning subdivision developments, they are only able to make loans to nonprofit organizations for subdivision development. Senator, I have been into many rural towns talking to Lions Clubs and Rotary Clubs and Chambers of Commerce and so on. These people in nonprofit organizations do not have time to administer the development of a subdivision.

I wonder what is wrong with making the loan to profit organizations, if it will help build rural America? And I would like to highly encourage that this restriction be changed. I believe such a change would be quite effective in helping build rural America. I think the adoption of the regulation was well intended, but the implementation of it limits subdivision development.

And I would like to add at this time, Senator, that I think most of the bills passed by Congress for the people are great, but problems occur in the implementation of some of them.

Fifth, I would like to encourage passage of the bill that would increase the family income limits for homes in rural America through Farmers Home. Right now they cannot exceed an income of $8,000. Again, in many of these communities there is no place that they can get home financing other than through Farmers Home.

And sixth, I think one of the crucial things we need to encourage is an attitude change. This problem was discussed yesterday by Mr. Partridge of the Rural Electric. Farmers Home men are directly responsible for their performance, and this makes them ultraconservative about new ideas to help rural people. I would like to encourage that this be changed to allow a fidelity bond to be set up so they are protected against error, and held responsible primarily for fraud and dishonesty. I think this will allow these people that are in the field working with rural citizens to be of more service than what they are right now.

Another suggestion I would have—somewhat unrelated to housing, but in this area of development—is the need for manpower training in rural America. We have developed a Voc-Tech system in our area. And we have had to ask the people to train their people in order to be shipped out of the county for lack of available jobs—which is hard to get them to vote a tax for. But let me say this: In southeast Oklahoma I have asked this question: "Where are your loved ones?" And most people admit that their children and grandchildren have moved from southeast Oklahoma. So they voted a tax upon themselves in order to try to train their people. Even if we train them and some of them move away, it is better to send them trained and skilled for jobs in the city.

Seventh—and this gets to the meat of this Senate bill 2223—is the great need of what I call venture capital. You might want to call it investment capital. But we have got to turn the capital back to rural America. In the cities businesses can get the capital they need. But we know the cities have a problem, as Mr. King mentioned. This has been brought about because of the out-migration of many of your people from Alabama and our people from southeast Oklahoma. But we have created a cancer: a hard core, urban problem which is going to cost billions to try to solve. And if we are to promote rural America by working to develop rural America, we can do it much more economically than to try to go into the cities and operate with the cancer.

So, I think that you are getting to the heart of helping to develop rural America by setting up a vehicle—and I am not one to argue or debate the exact means—I would hope we could administer a program with existing agencies so more dollars would get to the people at the grassroots.

Eighth—and this is the last major recommendation I will make today—we need tax incentives for industry. I believe the Senate bill 2223 actually does this to a certain extent, but I would like to take it one step further: the tax incentive for industry that will expand in rural America. Also if they will hire and employ a percent—I use the figure of 20 percent—of the people from the hard core cities. This way we will disburse from the cities a lot of their problems, Senator. For instance, if we had an industry of 100 employees locating in my hometown and we used 20 percent of these from the cities—and a lot of these could be the loved ones from the area who would like to return. A training program should be set up automatically. These people could have better homes in their town than what they moved from in the city. So we could allow the tax incentive to the industry to come to the area, provide the venture capital, and also add to this an incentive to utilize 20 percent of the people who are in the hard core unemployment areas of the cities.

Getting names of persons wanting to relocate could be worked in easily. The unemployment office would only add two questions to their application: (1) Where do you consider your home to be? and (2) if we could find you a job there, would you like to go back?

This could be worked on a computer and sent out immediately to all these areas. And then we could bring back home a lot of these people who would like to come home here and raise their families.

Senator ALLEN. Not only stop the outmigration, but reverse it.

Mr. WATKINS. Exactly. They will come back and they will probably want to build on 20 acres or 60 acres. They will build back to a certain extent the institution of the family farm. We will start rebuilding—not only just industry, but rebuild the family home situation because they will raise their children out in the rural area with a few calves and some hogs, even though they will be working in town with the industry and making their primary income. This will solve many of our social ailments in the cities.

Now, Senator, I think the beauty of this thing is—and I get enthused about this factor—we disperse the hard core problems out of our cities. They all do not go to one town. Maybe 20 of these people will go to my hometown of Bennington, Okla. Twenty more of them may be going to Norman or many other towns where industry is expanding.

You are not jamming everyone into one area again, but you are gradually pulling these people out of their social problems. The social pattern would be broken up in the various areas throughout the Nation, and it will be a process to start breaking down the city problems and rebuilding rural America. Over a period of time it will solve the ills of a lot of our cities, because where there are three families living in an apartment today in New York, one of these would probably pull out and come back to Alabama or come to Oklahoma. And so the process would go.

I think the meat of your bill is great. And I urge the adoption of something of this nature, utilizing as much as possible the present administering agencies if we can.

I would like to encourage two other things, both of which are elementary in some respects, but important from a layman's viewpoint. I appreciate this opportunity to speak to you and I recommend that you also allow laymen, who are trying to implement these programs, to testify before committees. Sometimes laymen understand where the problems lie and why legislation, which has the greatest intent in solving problems, fails in being implemented.

I sincerely appreciate your allowing me to be heard on this.

And second, Senator, if you are able to pass such a bill, put in it a regulation for hiring professional type people to implement the program. Too many times the pieces of legislation that Congress has passed are in the hands of people who are only wanting a paycheck and are not dedicated into building rural America. And I hope you can have concern built into a system so that dedicated professional people are hired who will not look at the clock, and will not try to just get a paycheck and say, "to hell with other people."

I mentioned Mr. Hamilton earlier in my remarks. I think if we can help build rural America, I will probably meet Mr. Hamilton or others of my former neighbors on the streets in southeast Oklahoma one of these days. And I think he will answer me like this: "Wes, southeast Oklahoma is a great place to live, but even a better place to make a living."

And that is my goal in life.

Thank you.

Senator **Allen**. That is mighty fine, Mr. Watkins. I appreciate your fine testimony. I assure you that the committee will give careful consideration to your recommendations. I appreciate very much your appearance before the committee.

Mr. **Watkins**. Thank you. It was my pleasure.

Senator **Allen**. This concludes the public hearings on the two rural development credit and investment bills now under consideration by the Rural Development Subcommittee of the Senate Committee on Agriculture and Forestry. The record will remain open for 1 week for additional statements, and for the suggested improvements that we have requested from the various witnesses, or any suggestions that any witness care to make to the committee.

So, the subcommittee hearings on rural development credit bills is adjourned.

(Whereupon, at 3:40 p.m., the subcommittee was adjourned, subject to the call of the Chair.)

(Additional statements filed for the record are as follows:)

STATEMENT OF HON. FRANK E. MOSS, A U.S. SENATOR FROM THE STATE OF UTAH

Mr. Chairman. I am delighted to have this opportunity to comment on S. 2223, the Consolidated Farm and Rural Development Act. Those of us cosponsoring this measure believe it will make a significant contribution toward the solution of the rural-urban imbalance because it concerns a vital element in rural redevelopment: the supply of capital.

The exodus of rural inhabitants to urban centers has been explained in countless studies over the past quarter century. Until a relatively recent period, it was regarded as a more or less normal process, and we explained it in terms that have tended to become almost a cliche: men have always migrated to cities; cities are the centers of culture and knowledge, of finance and industry, and most of all, opportunity.

In recent years, however, as our urban centers have come to be recognized not so much for their former virtues as for their present sins, there has been a change in the country's attitude. Those of us who have long been concerned about the drying up of rural America hope that this changed attitude spells a higher priority for this aspect of American life.

There is a set of facts that describes the rural-urban imbalance in terms of rates of rural outmigration and urban concentrations. These are so well-known as not to need repeating. But within that set of descriptors is one item that tends to obscure an extremely important problem, relating to the government's role in rural development. That is the fact that only about one-fifth of the rural population consists of farm people; the other four-fifths comprise the rural non-farm people who live in the countryside or in small villages and towns.

Typically, Federal programs aimed at revitalizing or supporting the economy have been aimed at either urban or farm populations, and somewhere in the concept that divides the country's population into city or farm sectors, those who live in rural, but nonfarm America have been short-changed. This is the reason behind the proposed Consolidated Farm and Rural Development Act.

Two major provisions are compassed by the bill:

First, it would make some changes in the present Farm Credit System to make it possible for the Department of Agriculture to be more responsive to the needs of public and private borrowers to further the goals of farm and nonfarm rural development. The bill redefines rural areas, as used in section 306 of the present Farmers Home Administration Act, to include cities and towns of up to 35,000 inhabitants, as compared with the 5,500 limitation presently in effect. It expands the Farmers Home Administration authority to make or insure loans to prospective borrowers for any rural community development project that has the potential for providing employment and services to farm and rural nonfarm residents. It also sets a broad definition to the term "rural community development project" to include almost any kind of project that would enhance employment opportunities, investment prospects, and the quality of life in rural America. It requires that aided projects be consistent with State, local or multijurisdictional plans for developments of the area in which the proposed project is to be located.

The proposed bill would also expand the grant authority under section 306 of the Farmers Home Administration Act from the presently authorized $100 million per year to $300 million, and authorizes the Secretary of Agriculture to make grants to the newly-defined rural community development projects. At present, such grants are limited to water and waste disposal projects.

The second major goal of the bill is the establishment of a non-farm Rural Credit System, which in general terms parallels the present Farm Credit System, to provide both subsidies and hard loans for qualifying rural development projects. Administration of the System would be vested in a Rural Development Investment Administration, which would oversee the operation of ten Rural Development Banks. Financing of the system is provided in the form of a government subscription of some $2 billion, in ten annual payments averaging $200 million. This would enable the system to issue $2 to $3 billion a year in debentures and bonds at the outset, increasing to $10 billion or more when full borrower-owned status is achieved. The bill contemplates that most of the capital would ultimately come from private sources, as is the case with the Federal Land Bank system, which today operates without any Federal capital.

Among the provisions of Title I is one to which I wish to direct the Committee's special attention. This provision authorizes the Secretary to permit certain types of cooperatives, specifically all bona fide nonprofit cooperatives serving rural areas, to qualify legally for loans from regional credit agencies created by S. 2223 if they are unable to borrow from banks for cooperatives, commercial banks or other government or commercial lending institutions.

On March 3, I introduced S. 1094, a bill to amend the Farmers Home Administration Act of 1961 to authorize loans and grants to both existing and new cooperatives unable to secure alternative financing. I stated, when introducing the measure, that it would fill a serious credit gap in the rural economy.

There exists today throughout the State of Utah and the Intermountain Area a serious gap in credit available to cooperatives. Under Title III of the Economic Opportunity Act, the Farmers Home Administration had (until recently) authority to make loans to rural groups of low-income people to organize and operate rural cooperatives. This was an outstanding program which resulted in the creation of many new cooperative associations. Unfortuantely, in some cases, the terms of such loans required that these cooperatives show an almost-instant success. What clearly was needed was grant assistance to carry these new organizations through the first difficult—and often unprofitable—months of operation.

For various technical reasons, partly because of administrative interpretation, but mainly because the laws specifically provide otherwise, none of these established cooperatives is able to obtain financing through the Banks for Cooperatives, the Farmers Home Administration or the Small Business Administration. As a matter of fact these are among the few business corporations in the State of Utah which do not have available an "umbrella of protection" in the form of

Federal government credit. Each pays high interest costs on any money which it is able to borrow and each is handicapped in developing business successfully because of the lack of reasonable financing.

Briefly stated, my bill would accomplish two main objectives: it would, first, provide loans to organizing and organized cooperative associations which were unable to meet the usual loan requirements of the banks for cooperatives. At the same time, it would remove the requirement which operated to restrict the loan provisions of Title III of the Economic Opportunity Act to rural cooperatives whose family membership consisted mainly of those in the so-called "poverty" class. Second, my proposal would authorize grants to these cooperative associations by the Secretary of Agriculture for such periods as he determined would assure their successful operation.

Mr. Chairman, it is axiomatic that the success of rural redevelopment rests on a healthy agricultural industry; agriculture is responsible for more employment and more opportunity than any other single sector of our economy. The success of the cooperative movement in the American farm economy over the past century commends it as an important tool for redeveloping rural America. I firmly believe that the terms of S. 1094 would, in turn, help to provide the critical capital needs of organizing and operating these cooperatives.

The terms of S. 2223 are sufficient to accomplish the aims of my bill to provide loans and grants to cooperatives. Section 102 clearly authorizes the Secretary of Agriculture to make or insure loans to "cooperatives that are unable to obtain credit from the banks for cooperatives." The question concerns the authority of the Secretary—in Section 103—to make grants for "other rural community development projects"; it may be more nearly related to Section 105, which sets out the definition of "rural community developments projects." Although I could interpret several of the activities listed in Section 105 to include cooperative associations, what is urgently needed is a clearcut statement of intent in S. 2223 which makes all types of bona fide non-profit cooperatives eligible for financing, if they meet the financial test of the law and if they are unable to obtain satisfactory financing from other sources.

Because the definition of the type of agricultural cooperatives which are qualified under S. 2223 is unduly restrictive, I propose an amendment to Section 606 that specifically broadens the definition.

A phrase should be added to Section 606 on Line 10 of Page 46 of the bill following the section reference to 12 U.S.C. "114j(a)," and before the word "if" to read as follows:

> Cooperative associations furnishing to farmers and rural residents services and facilities for harvesting, storing, processing (including preservation or preparation of edible products for market), transporting or marketing agricultural commodities or products, consumer purchasing services, or the processing or marketing of other products of farmers or rural residents.

Moreover, the scope of S. 2223 is so broad involving overall rural development and the mechanics and procedures so encompassing that in my opinion, even if cooperatives are covered by the bill, under the present language they would have exceedingly low priority. For example, capital generally must come from private sources under exceedingly complicated procedures. Similarly, an area-wide multiple county planning unit is established which almost entirely would have purposes unrelated to the role of a cooperative.

Hence, I propose an amendment to Section 506 that would entitle a cooperative with equal and equitable treatment under the law. A new section (c) should be added to Section 506 of the bill on Page 33 thereof, to read as follows:

> (c) The board of directors of the appropriate regional bank shall allocate equitably the bank's loans and services between and among the types of potential users.

I am hopeful that the "umbrella of government financing" can now extend to small and intermediate sized cooperatives and this serious credit gap can be closed clearly and definitely by the above specific language being added to S. 2223.

I commend the Committee for their outstanding and effective leadership in creating new sources of credit for the revitalization of rural America. I sincerely hope that provisions for assisting cooperatives can be incorporated in the final outcome of your deliberations.

Thank you.

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C., September 20, 1971.

Hon. HUBERT HUMPHREY,
Chairman, Rural Development Subcommittee, Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This replies to your letter of September 14 in relation to the additional hearings the Subcommittee on Rural Development is holding on S. 2223 and your desire to have my views on this bill.

In his letter of July 23 concerning the earlier hearings held by the Subcommittee, Under Secretary Van Dusen indicated that he believed this Department's views on S. 2223 would be reflected in the testimony of other Administration witnesses. I have examined that testimony, including the statement of Under Secretary of Agriculture Campbell, and feel it is in fact so consistent with our own position that there is little I or my associates could add in appearing before the Subcommittee. However, I very much appreciate your courtesy in extending to me this additional opportunity to be heard.

Sincerely,

GEORGE ROMNEY.

BISMARCK, N. DAK., *August 13, 1971.*

Hon. HUBERT H. HUMPHREY,
U.S. Senator, U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: I commend you for S. 2223.

I have no suggestion to offer at this time for its improvement. I think it is very imperative that this legislation be enacted, and we worry about refinements as experience discloses the need for them. This legislation is overdue.

I want to assure you that there would be active use made of the proposed credit program in North Dakota.

Sincerely yours,

WILLIAM L. GUY,
Governor,
State of North Dakota.

NASHVILLE, TENN., *September 28, 1971.*

HON. HERMAN E. TALMADGE,
Chairman, Senate Agriculture and Forestry Committee, 324 Old Senate Office Building, Washington, D.C.

DEAR SENATOR TALMADGE: It is my understanding that your committee is currently considering S. 2223, a bill consisting of a "Consolidated Farm and Rural Development Act" and a "Rural Development Financial Resources Act." In reviewing this bill, I find that its provisions are not the most feasible for dealing with the economic problems of rural America.

This bill will, first of all, create an excessively large and unnecessary bureaucracy. The entire Regional Banking System, as proposed, will be simply a supplement to the many existing Federal bureaus which relate to rural development. Moreover, the proposed system lacks any coordination with State efforts and thus fails to take advantage of the states' expertise in this field.

In addition to the above general comments, several more specific problems are evident. It is obvious that systematic, unified planning at any level will be extremely difficult with this bill. The only provision made is that of the comprehensive development district plan, which is generally so broad as to allow any project to be funded. The districts would be in an extremely precarious position with respect to plan implementation: they would be faced with the task of maintaining a rural bank and yet also trying to serve their urban residents.

More importantly, those areas not served by district credit agencies—an appreciable amount of territory in Tennessee—would be under the administration of the regional credit bank. Thus, borrowers in these areas would be following absolutely no plans; the reserve bank would approve or reject the projects without any indication of their relevance to a national growth strategy, a State goal, or a series of conflicting local desires.

There is also a tremendous opportunity within this bill for conflicts of interest to arise on the part of the participating institutions. A bank could, for example, reject a loan, force a borrower to obtain a guaranteed loan under the system, and then finance the project with the new insurance of a Federal guarantee. In addition, the voting participating institutions at the district agency level could prohibit other banks from becoming participating institutons and from operating under the system. Thus, an oligopoly of banks within the system could control a great portion of the multi-county market.

The Federal Rural Development Investment Equalization Administration, as proposed, appears to be an unnecessary agency; there is no justification for providing a separate administration to supplement interest payments for the borrower. If these project directors are worthy of funding, they should be in a position to repay the loans without supplemental assistance.

The proposed Rural Enterprise and Community Development Administration will be forced to consider projects in areas with up to 35,000 residents, a change which necessitates a total reorganization of the Farmers Home Administration. It is unlikely that the present Farmers Home Administration local county administration policy could be maintained.

Finally, the list of rural purposes is so broad as to permit the funding of virtually any possible project. The entire bill, therefore, could degenerate into a massive, unplanned, rural public works program. This type of legislation does not really solve the basic rural dilemma today. This bill is not, therefore, a viable alternative to rural revenue sharing. If I can provide you with any further information, please let me know.

Yours truly,

WINFIELD DUNN,
Governor,
State of Tennessee.

SAN JUAN, PUERTO RICO,
October 4, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HUMPHREY: Please excuse the delay in my replying to your letter of April 30, concerning rural America. It is just recently that I have received the written views of some of my key cabinet members. Their views and mine are as follows:

1. Your views and opinions as to the problems of rural America (in other words, rural Puerto Rico)

The chief problem of rural Puerto Rico is unemployment or lack of work opportunities. The Puerto Rican rural sector has an exceptionally large population that is poorly educated and unable to enter into labor market competition.

2. Your opinion on the impact of these rural problems on Urban America

The chief impact of the rural unemployment problem on urban areas is that of migration to the cities. This in turn results in more urban unemployment and new demands for urban housing, schooling, recreational facilities, etc. The change of environment can lead to psychological disorientation, crime, and drug use.

3. The need for a national growth policy

Our nation must develop policies whereby it will be as attractive or more attractive for our people to live in rural areas as in the cities. First, employment possibilities must be opened up. Training and/or retraining must be provided for existing or new agricultural crops and or rural industries. Shopping and recreational facilities in the country must equal those in the cities.

4. Your experience in dealing with Federal programs aimed at the development and improvement of the rural areas of your state

Puerto Rico has received very little in the way of federal aid for rural areas. The only such program is the Farmer's Home Administration, which offers home loans to farmers, and only a few Puerto Rican farmers have qualified for this program.

Puerto Rico requires more federal assistance for low cost rural housing and for incentives for the development of fruit and vegetable farming. Aid is also required for the construction of rural roads to transport these products to markets.

5. The State laws and State programs aimed at the development of the rural areas of your State

During the last thirty years, Puerto Rico has had a remarkable record of industrial economic development. This growth has not been haphazard. Our industrial development agency has planned, guided, and where necessary given stimulus to insure that all our people, both rural and urban, have an equal opportunity to reap the benefits from a uniform, and orderly economic expansion.

At a very early state in our industrial expansion, it became apparent that industry, if left to its own means, would establish its plants in or near our metropolitan center, ignoring the rural areas completely. Analysis revealed there were several reasons for this action. The metropolitan areas offered: (1) easy access to our ports, thereby reducing inland freight costs; (2) an available supply of skilled labor; (3) superior public utility services—power, telephone, water; (4) a wider selection of available plant buildings; and (5) many cultural and social amenities. We realized that any program designed to encourage rural distribution of industry had to off-set and equalize the plant location advantages of the urban areas.

Our program was developed around five elements: tax exemption; industrial incentives; plant construction; building lease fees; and inland transportation charges. The industrial tax exemption was increased for designated rural areas from 10 years in the San Juan area, in graduated increments, to a maximum of 17 years exemption in underdeveloped rural areas. Concurrently, we established an incentive system under which a firm, depending upon its location, could receive stipulated amounts for each worker employed. The government would furnish the stipulated sums for any of these items.

(a) Expenses in contracting technicians to train management and supervisory personnel.

(b) Rent on factory buildings.

(c) Interest on mortgages for the purchase of factory buildings.

(d) Interest in business improvement loans.

(e) General costs of marketing, including design, leasing of exhibition space advertisements, etc., and engineering service.

(f) Cost of accounting and appraisals for the purpose of soliciting financial assistance.

(g) The costs of providing basic installations such as electric power substations and related equipment, water treatment plants, wells and whatever other type of installation is necessary to carry out the manufacturing operation.

(h) Expenses of technical assistance related to the different aspects of administration and production, including among others, legal services, layout of cost accounting and general accounting systems.

We also increased the construction of government-owned plants in our underdeveloped rural locations throughout the island. At the same time, we established a graduated lease arrangement for our buildings so that rents were less expensive in rural areas, and were highest in the San Juan metropolitan area.

In addition, in prior years, we were able to assist manufacturers in locating away from the metropolitan areas, by arranging with steamship lines to absorb the delivery costs in excess of fifty dollars per trailer for port-to-factory transportation of goods. This practice, however, has been terminated by the steamship lines, but it was helpful while it lasted.

Our program has been effective. We now have industry dispersed throughout the island, but we still have, nonetheless, a large concentration of industry in the metropolitan areas. In time, we hope, that our program will achieve an even greater uniformity of industry throughout the island.

6. Your experience in the planning of the economic development of your State.

The Puerto Rican experience with economic planning is unique. The Puerto Rican Planning Board is known throughout the world, as a model for economic planning within a democratic framework. Given broad powers by the legislature and well insulated from partisan politics, the Planning Board has been able to plan for the rational long-range utilization of Puerto Rico's land and resources. Every square in of Puerto Rico has been assigned for a specific use—be it farming, industry, tourism, roads, recreational areas, etc. The Puerto Rico Planning Board has become a model instituion in Latin America.

I trust that this information will help in your assessment of the rural problems of Puerto Rico, and I hope you will include our island in one of the ten field trips you are planning around the country.

Best wishes.

Sincerely,

LUIS A. FERRÉ,
Governor,
Commonwealth of Puerto Rico.

WASHINGTON, D.C., *September 20, 1971.*

Hon. HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee, Senate Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C.

DEAR SENATOR HUMPHREY: We are writing to you in regard to S. 2223, The Consolidated Farm and Rural Development Act, and S. 742, a bill to establish a Rural Community Development Bank, now before your Subcommittee.

First, we would like to call to your attention the testimony presented to your Subcommittee on Rural Development by Mrs. Haven Smith, Chairman, American Farm Bureau Women's Committee, on June 16, 1971. This statement gives Farm Bureau's views on Rural Development in a general way.

The American Farm Bureau Federation Board of Directors, at its September meeting, discussed the specifics of S. 2223 and S. 742.

The Board requested that we call the Subcommittee's attention to our previous testimony and request additional time to obtain voting delegate action on the provisions of bills now before your Subcommittee. Our annual meeting will be held in early December.

We thank you for the opportunity to have Farm Bureau's views considered. We would appreciate it if you would make this letter a part of the record of your current hearings.

Sincerely yours,

MARVIN L. MCLAIN,
Legislative Director,
American Farm Bureau Federation.

ATLANTA, GA., *August 20, 1971.*

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry.
Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, U.S. Senate, Washington, D.C.

DEAR SENATORS: Thank you for your letter of August 11, 1971, in which you requested comments or suggestions from me which might in some way be of assistance in having S. 2223 approved.

I certainly appreciate your kind consideration in giving me an opportunity to make comments for I am most interested in the development of rural Georgia. If I have any worthwhile suggestions to make after reviewing the committee print, I will be in touch with you.

If we in the Georgia Department of Agriculture can be of assistance to you at anytime, please do not hesitate to call on us.

With warmest personal regards, I am

Sincerely,

THOMAS T. IRVIN,
Commissioner,
Georgia Department of Agriculture.

SALEM, OREG., *August 20, 1971.*

Hon. HERMAN E. TALMADGE,
Chairman, U.S. Senate Committee on Agriculture and Forestry,
Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Senate Office Building, Washington, D.C.

GENTLEMEN: I am responding to your letter of August 12 directed to Walter Leth whom I succeeded as Director of Agriculture.

The data from Mr. Giltmier's office on S. 2223, the Consolidated Farm and Rural Development Act, crossed my desk earlier this week. I would congratulate you both. I think it is a beautifully conceived plan and hope that it will become law without undue delay.

It is not only an exciting prospect but it is something that is *badly* needed to reverse the trend toward urban population impaction and to accelerate population dispersion. And, it is in the best keeping of our national tradition of borrower-owned financial institutions for rural development.

You requested my comments and I have not had an opportunity to think too thoroughly about it, but two things cross my mind as I analyze the information which came from Mr. Giltmier.

The first was that it should surely have more than adequate safeguards drafted into the bill to prevent any excess profits by private lending institutions at the local level. Secondly, I would hope that it would guarantee a maximum input from state and local land use planning agencies and that it would have sufficient incentives to encourage coordination of both state and local planning, the lack of which is the Achilles' heel of land use planners in this state and I would assume in most states.

I would be most appreciative if Mr. Giltmier would keep this office fully informed on developments concerning S. 2223 and we will urge our congressional delegation to look with favor upon its passage.

Sincerely,

IRVIN MANN, Jr.,
Director,
Oregon State Department of Agriculture.

RALEIGH, N.C., *August 24, 1971.*

Hon. HERMAN E. TALMADGE,
Hon. HUBERT H. HUMPHREY,
U.S. Senate,
Washington, D.C.

GENTLEMEN: Reference is made to your recent letter concerning Senate Bill 2223 relating to the establishment of a broad program of nonfarm rural credit which you introduced on July 7, 1971.

I am impressed with the broad scope of the bill and believe that the bill should be enacted to help in rural nonfarm development. I think that strengthening the bill through the extensive use of local banks is desirable.

Cordially,

JAMES A. GRAHAM,
Commissioner,
North Carolina Department of Agriculture.

RICHMOND, VA., *September 21, 1971.*

Hon. HERMAN E. TALMADGE,
Chairman, Agriculture and Forestry Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR TALMADGE: We appreciate the opportunity to comment on the proposals contained in Senate Bill 2223 concerning Rural Development.

The availability of adequate finances certainly is much needed in many of our rural communities. It appears that your Bill does provide the machinery, with adequate safeguards, to make increased funds available in our rural communities for development purposes.

We are particularly pleased to see that your approach recognizes the very basic positive contributions being made by the production segment of the Industry of Agriculture to the vitality of our rural areas and the continuing need to maintain and further develop a viable agricultural production economy.

A multi-county approach has worked quite well with the Production Credit Associations and the Farm Credit System in general, and it would appear that a similar approach for the program you have outlined would be desirable. There is the need to provide sufficient flexibility in approaches at the local level in order to allow for creativity and innovations under a variety of needs and circumstances. We believe multi-county Planning Districts, where organized, is one approach and there may be others.

We will also evaluate carefully the limitations regarding the 35,000 population provision as it relates to contiguous urban areas and the SMSA designations in our State.

It is our hope to remain informed on the developments regarding your proposal and how changes in it may affect the agricultural and rural interest in Virginia.

Sincerely,

MAURICE B. ROWE,
Commissioner,
Virginia Department of Agriculture and Commerce.

STATEMENT OF WARREN T. LINDQUIST, PERSONAL ASSISTANT FOR DEVELOPMENT AND PUBLIC AFFAIRS TO THE CHAIRMAN, CHASE MANHATTAN BANK, NEW YORK, N.Y.

Thank you for the opportunity to submit this statement regarding Bill S. 2223 entitled the Consolidated Farm and Rural Development Act. My comments are based on: (1) a general concern with the future development of the United States; (2) a belief that the people of the United States and our economy would be better served by having a more explicit, comprehensive and consistent set of national growth and development policies; and (3) a belief that business must provide more leadership and assume more responsibility in determining the future course of our Nation.

DEVELOPMENT OF RURAL AMERICA IS NEEDED

Senator Humphrey and the other sponsors of S. 2223 have performed a valuable public service in focusing the attention of Congress and the Nation on the needs of rural areas and on the importance of stemming the massive migration from rural to already crowded urban areas. America must be economically viable. Moreover, a better population balance between urban and rural areas is essential to our National well-being. I would urge too that the growth and development of rural America be fostered in accord with overall growth and development policy at both the national and state levels.

Substantial opportunities are available in rural areas for the development of new communities and the expansion of existing growth centers. Industrial and other business opportunities associated with such developments are critical to the continued economic vitality of our Nation.

ACTION IS TIMELY NOW

For many decades the industrialization and urbanization of the United States have caused millions of rural residents to migrate to large urban areas in quest of education, employment, and an improved quality of life. Some have benefited by this process; many, unfortunately, have not. Moreover, as our metropolitan areas have increased in size and population density, the quality of life for all of us has been affected.

In recent decades, millions of urban Americans have moved to the suburbs in hopes of enjoying the advantages of both urban and rural living. The growth magnitude of this suburbanization, however, is causing suburbs to become more urban, thus drastically reducing the rural advantages sought by suburbanites.

Now we see that more and more people are contemplating moves to rural areas and small communities. While it may be desirable for the Federal Government to encourage this decentralization of population, it is clear that some areas are better suited to accommodate new population and economic activities than are others. However, even these better suited areas are likely to be ill-equipped to provide for significant growth. Accordingly, Federal and State governments must provide not only policy guidelines for rural development, but technical and financial assistance as well. Bill S. 2223 recognizes the importance of integrating guidelines with technical aid and financial measures.

BASIS OF RURAL DECLINE

In my opinion, the decline in rural economies in recent decades is attributable to personal and business opportunities in urban areas overshadowing those in rural areas. Nonetheless, total new investment in rural and small town America each year amounts to billions of dollars. These investments, however, are concentrated in economically viable areas. It is generally accepted that people would not want their savings invested imprudently in high risk, low return projects. On the other hand, lending institutions have financed vast numbers of economically feasible projects in rural areas.

SPECIFIC COMMENTS ON S. 2223

Bill S. 2223 is partly based on the premise that people in many rural areas are recipients of indaquate services and facilities because new investments are not being made there. In economically marginal areas this undoubtedly is the case. The provisions for direct grants and technical assistance could improve the conditions in these areas.

The proposed expansion of annual maximum authorized *grants* for rural community development projects from $100 million to $300 million would seem appropriate as long as these funds are used to finance public projects which underpin and reinforce basically sound rural communities. It may be that the Administration's Rural Community Revenue Sharing proposal could serve purposes similar to those that would be served by these grants. The stipulation in S. 2223 that projects funded by these grants meet specific feasibility critieria and comprehensive planning criteria is certainly a reasonable one.

I would generally agree with the purposes and objectives of S. 2223 insofar as Federal grants and technical assistance are applied to upgrading facilities, services and opportunities in rural and small town America are concerned. Beyond this, improvements are needed regarding the availability of credit for rural development purposes. Some of the specific credit provisions of S. 2223, however, raise problems.

INCREASE IN RURAL DEVELOPMENT FINANCING NEEDED

It is my understanding that the "Rural Development Credit System" proposed by S. 2223 would make loans available for a broad range of both public and private capital investments and operating activities. The underlying assumption that more investment in rural areas is needed to upgrade conditions and provide for growth in many areas is not questioned.

Ordinarily one would expect that private financing is available for economically feasible projects. Should this not be the case, then existing financial institutions should be encouraged to improve their performance in this regard.

If local banks individually do not have the capability to finance suitable projects in their areas, then other private banking mechanisms should be employed to marshall and channel funds for such purposes.

GOVERNMENT BACKED CREDIT

According to the Agricultural and Forestry Committee's analysis of S. 2223, loans would be made pursuant to this Act only if the "project cannot be financed from any other public or private source, in a reasonable time, on reasonable terms, and at a reasonable rate of interest". It is difficult to see how these criteria can be met by economically feasible undertakings in large numbers, unless the criteria are defined so strictly that this Rural Development Credit System directly competes with non-participating financial institutions on terms these institutions cannot meet.

Another probable outcome of financing through the Rural Development Credit System is that credit would be extended to projects and operations of marginal economic feasibility. Anticipation of this outcome apparently is the basis of provisions for interest supplements and capital augmentation payments to borrowers.

While certain parts of S. 2223 clearly establish that loans are to be made available only for economically feasible undertakings, it would seem that the inability of borrowers to meet interest and principal payments is expected in some cases. A further indication of the intended "soft" nature of loans under this Act is that loans are guaranteed by the "full faith and credit" of the Federal Government. Where high-risk investments are deemed appropriate, based on substantial public benefit criteria, Government assistance may well be in order. However, the extensive use of interest payment, capital augmentation and loan guarantee devices for broadly defined public and private purposes, raises some difficult questions.

EXPANSION OF PRIVATE DEVELOPMENT BANK CONCEPT

An alternative to the principal reliance on a new and permanent Government-supported financial structure might be that of a private financing mechanism such as we have proposed for development purposes. Such a limted-profit privately sponsored, funded and administered banking mechanism—created by an Act of Congress but entailing no Government equity or guarantees—could effectively marshal and channel sufficient capital, at reasonable terms, as needed to meet prudent investment requirements and foster public policies regarding national growth and development in both urban and rural America. Many of these concepts were advanced by David Rockefeller in his recent New Towns Proposal. Respectfully transmitted herewith is a reprint of a *U.S. News and World Report* interview with Mr. Rockefeller on this proposal.

I appreciate this opportunity to submit written testimony regarding this proposed legislation.

(The interview is as follows:)

[Interview with David Rockefeller, chairman, Chase Manhattan Bank, from U.S. News & World Report, June 7, 1971]

WHAT IT WILL TAKE TO BRING CITIES BACK TO LIFE

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STATEMENT OF FRANK K. DOWNING, MANAGER, SPECIAL SERVICES, EAST KENTUCKY POWER COOPERATIVE, WINCHESTER, KY.

The primary basis for classifying areas in relation to economic distress has been for many years unemployment as percent of the labor force.

This single criteria is reasonably adequate for metropolitan areas. However, the techniques for estimating unemployment are inadequate for measuring this component of the labor force for small areas, *particularly those of a rural nature.* In addition, unemployment as defined and measured is not the major economic problem of areas of this type. Rather a more critical problem is the number of *under-employed* and the number of people (mainly women) who are not in the labor force because jobs are not available.

A primary reason for excluding these groups is, of course, the difficulty of measurement. There is no precise definition of the under-employed for instance. However, generally speaking, it includes persons working at low wages, persons working below their highest skill level and persons working less than a full week against their wishes. Many farm workers fall into these categories in rural areas.

It would be nigh impossible to measure the numbers in these groups county by county across the country, but there are indications which are subject to fairly easy computation.

The rate of unemployment should remain a key criteria for measuring economic distress on a local basis. However, other measures should be added—

particularly in rural counties—which indicate under-employment and lack of participation in the labor force because of the lack of jobs.

These measures should be added to the definition of a depressed area on an *"or"* basis.

Following are some possible measures. These are statistically possible for all counties in the U.S.

1. *% of net out-migration between 1960–1970.* Net out-migration definitely indicates a lack of job opportunities. Rates for all Kentucky counties are now being computed and can be the basis for evaluating a rate that is reasonable to use.

2. *Non-agricultural employment as % of population.* When this ratio is low it indicates both under-employment and lack of participation in the labor force.

Employment security agencies can estimate with reasonable accuracy non-agricultural employment by county. Estimates of wage and salary workers are even more accurate and perhaps should be substituted as the base population estimates for counties are prepared in most states for the inter-censal years.

It would seem reasonable to assume that a county with non-agricultural employment as percent of population less than two-thirds of the national norm has a problem of under-employment and lack of participation. Measuring employment against population of working age would, of course, be more desirable. But population by county by age groups may not be available for all counties in non-census years.

3. *Per capita income "X" % below the national average.* There is little question but what this measure indicates economic health or illness. Per capita income can probably be produced by county on an annual basis by the Office of Business Economics, U.S. Department of Commerce, in a manner adequate for this purpose.

A level of below 60 percent of the U.S. might be a reason for concern. There are, of course, other approaches. These have the advantage of being simple and available.

MINNEAPOLIS, MINN., *September 27, 1971.*

Hon. HUBERT H. HUMPHREY,
U.S. Senator, Old Senate Office Building,
Washington, D.C.

DEAR SENATOR HUMPHREY: The membership of the Minnesota Association of Electric Cooperatives is concerned about the future development of the rural areas of the State of Minnesota and other states of our nation. The enclosed resolution requesting your support for the Rural Development Bank Bill (S-2223) was adopted by the membership on August 31, 1971.

We, the membership of the Minnesota Association of Electric Cooperatives, feel that every effort should be exerted in a way that will bring more business, employment and educational opportunities back to the rural areas.

Your assistance would be appreciated.

Sincerely,

ORVAL L. LINDELL,
General Manager,
Minnesota Association of Electric Cooperatives.

(The resolution is as follows:)

MEMBERSHIP RESOLUTION

Whereas, the rural areas of Minnesota and other States are directly affected by the movement of people, especially the young people, to the large cities for education and employment, and

Whereas, a Rural Development Bank Bill (S-2223) has been introduced in the U.S. Congress by Senators Humphrey and Talmadge for the purpose of making available funds for the development of the rural areas, and

Whereas, the rural electric cooperatives have a direct interest in the development of the rural areas of Minnesota and our Nation: Now, therefore, be it

Resolved, That the Minnesota Association of Electric Cooperatives and the members of the Minnesota Association of Electric Cooperatives support and urge Congress to enact into law the Rural Development Bank Bill (S-2223); and be it further

Resolved, That all the members of the Minnesota Association of Electric Cooperatives contact the Congressional Delegation from Minnesota and other Congressmen with which they have a personal relationship; and be it further

Resolved, That this resolution supporting passage of the Rural Development Bank Bill (S-2223) be presented to the NRECA Resolutions Committee at NRECA Region VI Meeting for consideration.

I, Orval L. Lindell, General Manager of the Minnesota Association of Electric Cooperatives, do hereby certify that the above resolution was adopted by the membership of the Association at the regular Annual Fall Statewide Membership Meeting held on August 30-31, 1971 in Minneapolis, Minnesota.

WASHINGTON, N.C., *August 20, 1971*.

HON. HERMAN E. TALMADGE,
Chairman, U.S. Senate Committee on Agriculture and Forestry, Washington, D.C.

DEAR SENATOR TALMADGE: I must begin my treatment of thought relative to the subject document by clearly stating my personal commitment to the regional (multi-county) concept for planning and development as being sincere in the sense of gain for development's sake; and not to any extent for the sake of "super-county" evolvement. My personal hope is that multi-county efforts will continue to be the arms length vehicles, without mandate power, for the conduct of planning and action efforts cumbersome for a single unit of local government to perform.

The Mid-East Regional Commission is such a vehicle; supported by local and Federal funds and armed only with the power of persuasion. North Carolina has not yet fully, from executive through legislative view, embraced the multi-county concept; especially by appropriation.

The subject analysis, S. 2223, implies some consideration of multi-county organization. But, that implication is toward a work effort, again, sans financial support. Notification and Review relating consistency to regional planning is not to be an easily accomplished task if the regional planning and the review processes are an administration overburden on meagerly budgeted operations in multi-county offices.

Currently, this understaffed office is in a five (5) year work program; planned and added to constantly by the State and Federal Governments. The bills continue to glide through the legislative machinery, and the policies of the State and Federal Agencies each add to the regional offices paperwork drills. At the present rate of planning and printing plans the non-metropolitan offices, will after years of operations be able to point at shelves and files filled with their letters and documents; and only those. No action will have been taken by that office in the demonstration of its good planning. Too seldom do other agencies, local or central, implement another's plans.

So then, Senator, having plead the personal case, may I turn to the objective reply which your letter invites.

Rural development is the hope of the Nation. Rural America is not a strange area to most of the American people; and if we act promptly in restructuring the nearly forgotten rural scene that land area will provide the space and the means for the overburdened ignomy of the metropolitan sprawl. The land area of the Mid-East District will provide for many thousands of new citizens with no upset of natural balances: if properly planned. The Act, S. 2223 addresses opportunity for rural America.

The Rural Development Credit Bank, by separate title in the Act, should be a viable provider of rusk capital to the rural scene. I am in complete accord with this suggested financial structure. The promised catalytic effect of such participating risk venture should be the only reason necessary to intice correspondents from the private sector into the loanable-fund-pool. The appropriations enabling subsidy to borrowers and for Capital Stock purchase are surely reasonable public interest requisites.

The analysis does not address the method of administrative funding, nor in fact does it seem to indicate such funding, beyond the Regional Rural Development Credit Bank (the multi-state banks). I feel that, if to be leaned upon in the indicated sense, some method of financial assistance to those commissions would be reasonable. Some responsibility: such as promotion; planning; information service; review of projects; could be the commissions attendant and continuing responsibility. The multi-county office needs action programs if it is to survive a future evaluation locally. Accomplishments, and not plans, are more interesting in the rural scene. Slowly planning seems to attract more attention, but implementation will continue most interesting.

Thank you for asking for my consideration. You, and the Committee are to be complimented for requesting "grass roots" thinking prior to the final draft of the Act.

Sincerely,

N. WORTH CHESSON,
Interim Director,
Mid-East Economic Development Commission.

CLAREMONT, CALIF., *September 21, 1971.*

Senator JOHN V. TUNNEY,
Senate Office Building,
Washington, D.C.

DEAR JOHN: First I want to congratulate you and thank you most sincerely for your cosponsorship of Senate Bill 2223, the Consolidated Farm and Rural Development Act. This to my mind is one of the most important pieces of legislation to be introduced to the Congress in many years.

We are, at present, tragically witnessing the withering away of rural America, the progressive weakening of the economic and social position of the Independent owner-operated farm and, consequently, loss of the source of much of the basic democratic strength and leadership on which our country has relied through all its history. This trend must be reversed and S-2223 would go a long way toward accomplishing that purpose.

If, however, rural America is to be revitalized there must be financing available to make possible improved housing, improved social agencies, and above all local ownership of business enterprises. The best and surest way to broaden local ownership of economic enterprises in rural areas is through cooperative ownership. This is true because cooperative businesses must belong to the users of their services. They cannot be sold off to anyone else such as big city buyers. They must remain locally owned as long as they exist.

Some of the purposes for which financing is desperately needed in rural areas are the following: (1) Better housing for rural residents both on and off the farms and including cooperative housing and housing for senior citizens, (2) Financing of nursing homes which might indeed be developed through the efforts of other types of cooperative businesses for the benefit of those who need them, (3) Group health plans together with the facilities needed to make them effective, (4) Better schools, and (5) and perhaps most important of all, cooperatively owned processing plants so that farmers' crops can be processed under their own ownership and sold with the greatly added value which processing makes possible. This already is being done to some extent by farmers' cooperatives; but if the position of the independent farm or of agriculture in general is to be strengthened and protected, then much more such processing must take place. Such loans would have to be made at low rates of interest if they are to be practical in assisting rural America. It is to be hoped that provision will be made to hold such rates of interest at some such figure as 3 or 4 percent.

Once again let me thank you for your co-sponsorship and also thank you in advance for your active and vigorous support of this very important legislation.

Sincerely yours,

JERRY VOORHIS.

CENTERVILLE, MO., *September 20, 1971.*

Hon. HERMAN E. TALMADGE,
U.S. Senator,
Chairman, Agriculture and Forestry.
Washington, D.C.

DEAR SENATOR TALMADGE: This is in reference to your proposed legislation called "The Consolidated Farm and Rural Development Act."

After careful study of the proposal, the County of Reynolds concurs with the intent and structure of the Act and hereby wholeheartedly endorses it. We feel this legislation would give strength to rural development which is badly needed not only in our area but throughout the United States.

You can depend on our support in getting the Act passed into law.

Very truly yours,

PAUL PRICE,
Presiding Judge,
Reynolds County, Mo

ABILENE, TEX., *September 17, 1971.*

Senator HUBERT HUMPHREY,
Chairman, Subcommittee on Rural Development,
Washington, D.C.

DEAR SENATOR HUMPHREY: I am writing in regard to your Subcommittee on Rural Development.

First, let me background you on our organization, the West Texas Chamber of Commerce. This organization is 53 years old. It serves the western area of Texas, a copy of a map of our service area is attached. This area is about 60% of the State of Texas and is equivalent to the size of 13 of our states. There are 162 towns affiliated with our organization and all but 10 of these towns are smaller than 50,000 population.

From our over 53 years of work in the rural areas, I believe we can speak with a great deal of authority on rural America. In fact in April 1967 the West Texas Chamber of Commerce did probably the most definite study every made of the problems and potentials of the small town. More than 17,431 man-hours were spent preparing this study. Most of which were volunteered by people of such knowledge, position and expertise that even the United States Government could not have hired them.

We have through the years been closely associated with all the many attempts by various departments and agencies of the United States Government to accomplish Rural Development. Generally these have resulted in failure. I, personally, spent over 20 years of my adult life in a small town in a rural area and was completely committed in my monetary investments, civic endeavors and social endeavors to the rural environment. I was a businessman, farmer-rancher and elected office holder, or board appointee on almost all boards and offices found in the rural areas. So if there is one area of life in America today that we feel qualified to speak on it is rural America.

It is our opinion that the reason for the general failure of the past rural development programs is that we have never utilized the proper people resources.

In the past all authority and responsibility has been placed with governmental departments or bureaus. This has been doomed to failure from the start for the simple reason the Government will never be able to staff the programs with the properly motivated and knowledgeable people. Never have we utilized the vast reservoir of properly motivated and knowledgeable people that are available. I am speaking of the *result* oriented people. The *do-ers.* The people who have a monetary investment in rural America, the people who are hired and fired on the basis of the results they achieve.

In the past the plan of operations has been to establish a government bureau and charge it with the rural development responsibility. The results have been (1) a large bureaucratic organism with all its inherent faults and evils at a tremendous cost to the taxpayers (2) beautiful lengthy verbose plans that collect dust or are eaten by the rats (3) a vast amount of lip service and news media releases (4) no results (5) and bitter disappointment and detriment to rural America (6) and unnecessary cost to the taxpayers.

It is inherent to the system that Government employees wrapped in a cocoon civil service security, have only to go through the motions and then if the efforts do not bear results—well back to Congress for more money and another pie-in-the-sky rural development program.

My suggestion is that rural development resources of the Government should be channeled through the private sector of rural development professionals. Their job is on the line. Their money is invested in rural America.

Each large company maintains large staffs of Industrial Development experts, Agriculture Development experts and other experts relative to all aspects of the rural society. There are chambers of commerce organized in most towns with vast reserviors of knowledgeable, committed, resourceful, volunteer civilians. There are State and/or Regional Chamber of Commerce organizations covering all of rural America who are manned in large part by volunteer civilians composing the best brains in America that collectively blanket every aspect of the rural environment. There is not enough money in America to hire these people, yet their services are available to solve the rural problems.

The Government of the United States should make available to these people what resources they need and let them do the job. They can and they would, if they are not stifled by a mass of governmental bureaucratic planning and staffing.

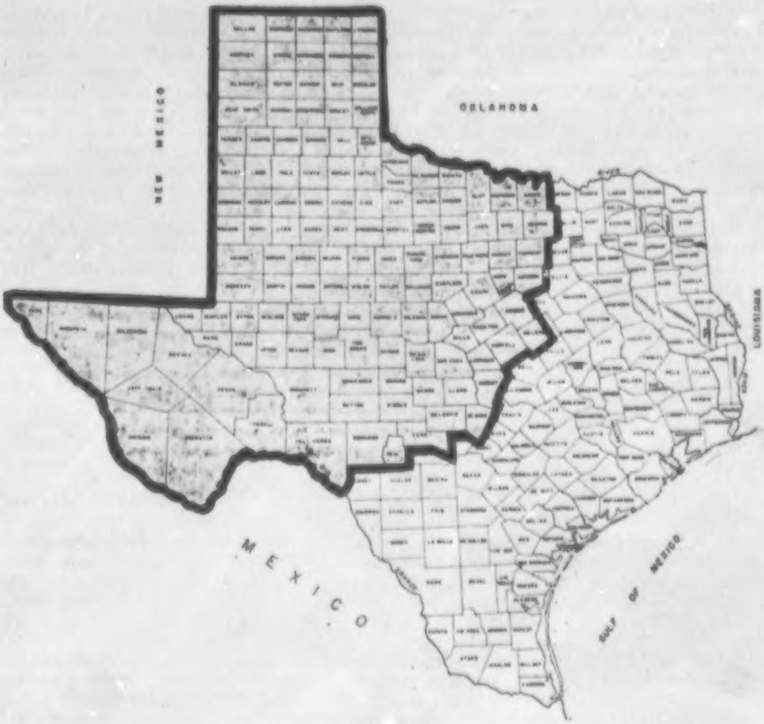
Also, if the rural development program utilized the State or Regional Chambers as the administrative vehicle, on a contractual basis, for this effort there would be a tremendous saving in administrative cost to the taxpayers and also would insure more of the resource funds going into the actual development program.

If you want to develop rural America, give these people that have their lives and money invested in rural America the resources and don't just build another costly bureaucratic empire that will again fail rural America.

Sincerely,

J. Fike Godfrey,
Executive Vice President,
West Texas Chamber of Commerce.

(The map is as follows:)



Blacksburg, Va., *September 2, 1971.*

Hon. William B. Spong, Jr.,
Congress of the United States,
Senate Office Building,
Washington, D.C.

Dear Bill: It recently has come to my attention that Senate Bill 2223 to amend the Consolidated Farmers Home Administration Act of 1961 was introduced on July 7 by Senator Humphrey and a number of other Senators, including yourself. Your interest in improving this important program is to be commended. Because of your interest in this matter, I would like to share with you information about our interest in the type of activities involved in S 2223 and some of our concerns about duplication of programs of this type.

Our review of S. 2223 indicated that, if this Bill were enacted, it would establish FHA as an agency that would conduct a number of programs that duplicate the programs currently being conducted by the Cooperative Extension Service. For example, Section 708 (page 68) enumerates powers of the Federal Rural Development Credit Agency that in many cases duplicate programs conducted in all states through Cooperative Extension and the land-grant universities. Section 710 of the Bill provides that the Federal Rural Development Credit Agency shall have personnel qualified to give advice in a number of fields in which Cooperative Extension personnel already give technical assistance and advice. That Section also authorizes the Agency to engage in research and information gathering relating to municipal growth and development among State and local governments; the land-grant universities and the Cooperative Extension also are engaged in these activities.

I know you will share my concern about this possible duplication of programs. Inasmuch as the land-grant institutions and the Cooperative Extension Service already are funded and are designated by law to conduct many of these same programs, we question the advisability of authorizing a line Federal agency to become engaged in them. Under the Cooperative Extension Service programs in Virginia, all of the resources of Virginia Tech are used in cooperation with the programs of FHA, thereby strengthening the programs further. This arrangement exists in virtually all other States. It appears inadvisable that another agency be authorized to duplicate the programs which the Cooperative Extension Service conducts so successfully in all States, with the cooperation of the land-grant universities.

It is my hope you will give our concern some consideration to avoid needless duplication of programs and possible weakening of the very successful programs now being administered through the Cooperative Extension Service.

I am sure those associated with the Cooperative Extension Service in the U.S. Department of Agriculture will be happy to discuss this matter with you or members of your staff further, and, needless to say, I would be glad to provide any additional information that might be helpful to you.

With warmest personal regards, I am

Sincerely,

T. MARSHALL HAHN, Jr.,
President, Virginia Polytechnic Institute and State University.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE VICE PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

My name is David C. Fullarton and I am the Executive Vice President of the National Telephone Cooperative Association located in Washington, D.C.

Our Association represents the nation's 234 cooperative rural telephone companies as well as many of the small independent commercial companies of the nation. Our members obtain all of their capital financing through the Rural Electrification Administration of he U.S Department of Agriculture.

As an Association representing rural interests almost exclusively, it is obvious we have a deep and abiding concern with any legislation affecting rural America. And I think there is no doubt that this bill is one of the most significant pieces of rural-oriented legislation to come before Congress in many years. As the distinguished Chairman of the Subcommittee, Senator Humphrey, noted on introducing this bill, "the legislation picks up where the Homestead Act of 100 years ago left off in trying to promote an intelligent rational growth policy for this nation."

I come here today to voice our Association's support for this bill. We firmly believe in the tried and true approach this bill presents—the providing of hard and soft credit for public and private rural borrowers.

The telephone cooperatives whom our Association represents are living proof that these principles work.

As I am sure all of the distinguished members of this Committee are aware, the nation's telephone coops as well as the small independent commercial companies play a vital role in our country's telephone network. Though we serve only a fractionally small percentage of the nation's telephones, nevertheless, we provide modern service in areas which, were it not for the foresight of the Congress some 22 years ago, would probably be unserved even today.

We believe the bill you are considering today will have the same effect on rural industry and rural life in general as that initial REA Telephone Loan Act, had on rural telephone systems some 22 years ago.

At that time rural telephone systems were moribund and decaying. Large portions of rural America were totally unserved and much of the service being provided was utterly inadequate. So Congress took the initiative and amended the Rural Electrification Act of 1936 to provide for long term, low interest loans to commerical and cooperative entitities who would pledge to serve all subscribers in their territories.

The results were phenomenal. Cooperative entities were organized to serve rural communities. Small commercial companies took the opportunity to use REA funds to modernize and expand their service.

Areas that had never received service "came on the line" and outdated 16–20 party lines were upgraded to more modern 8 party and 4 party service. Today, of course even 8 and 4 party service is inadequate, but with the passage of the rural telephone bank bill—thanks to the strong support of this Committee—it will not be many years before we see one party service as the standard in rural America as well as urban America.

What does this very brief history of the rural telephone program prove? It proves that rural Americans are willing to make the effort to pull their communities up by their bootstraps, given the chance. It proves that there is a great vitality and spirit in rural America—given the opportunity to nourish it and keep it alive. It proves we can provide any kind of first class service in rural America—telephones, electric, medical or whatever—given the capital to get it going.

We all recognize the benefits of rural living, and we also see clearly the problems facing rural America. Our Association believes this bill offers a very real alternative to letting rural America fall into decay.

As I noted, we believe the Rural Development Credit Bank approach is a sound one. A bank does not make grants or "give" money away. It makes loans and it requires individuals to work and be creative and to repay the note involved.

The fact that there are some interest subsidies involved is not heretical as far as we are concerned. We feel that where beneficial subsidies of this sort are needed, they should be granted.

Our rural telephone program is subsidized but we are not ashamed of it. Every dollar loaned to rural telephone companies is paid back with interest, and this will be true with every loan made under this bill.

We also think the Development Bank approach is sound because it allows for the maximum amount of individual planning and initiative at the local level. The closer to the grass roots in which individual activities sponsored by this program are initiated, the more successful it is going to be, in our opinion.

Hopefully this bill will also allow rural America to attack one of its most serious problems—the out-migration of its youth. Only if we can provide jobs and the modern facilities and amenities of all types in our rural areas, are we going to be able to persuade our rural youth to stay at home and not turn away to the big cities.

Rural America's problems are not going to be solved in one year or in two. They are not going to be solved solely by making more jobs available alone or more houses. Rather, the key is to be found in legislation such as this—a broad-based bill that will provide ample credit for a multiplicity of purposes. It would be difficult for Congress to anticipate the myriad of ways this credit will be used and perhaps it should not try. Better to create the instruments and provide the capital, and let the native ingenuity of our citizens do the rest.

Speaking for the nation's rural telephone companies, I would like to assure this Committee that right now, thanks to your foresight, we are preparing to *fully* serve rural America and we are working to provide telephone service as modern and up-to-date as that found in any city in our land.

As I mentioned, it is because of this committee's foresight that I am able to make that pledge. This is because of the accomplishment you wrought with the passage of the Rural Telephone Bank Act earlier this year. This law is going to provide the nation's rural telephone systems with the same kind of capital infusion that you are here planning to give the entire rural economy.

Your Committee has shown great vision and foresight in planning for America's rural growth. The passage of the Telephone Bank Bill, and the consideration of this legislation are clear evidence of that fact.

Before concluding, I would like to comment on one aspect of this bill which directly affects our Association. This is the inclusion in the bill of language which would provide for a reorganization of the U.S. Department of Agriculture, putting the Rural Electrification Administration under a new Assistant Secretary of Agriculture for Rural Development Credit. Other agencies to be included under this new Assistant Secretary's jurisdiction would be a new Farm Development Administration and the new Rural Enterprise and Community Development Administration to be created by this act. Functions of the present Farmers Home Administration would be divided between these two new agencies while the activities of REA would be left unimpaired.

At this time, the National Telephone Cooperative Association neither favors nor purposes this departmental re-organization. We believe careful study is necessary before any such far-reaching decisions are made.

With this exception, we urge the Committee to favorably consider this legislation and that it be promptly cleared for action by the Senate.

RACINE, WIS., *September 14, 1971.*

Mr. JOHN A. BAKER,
Consultant, Subcommittee on Rural Development, Senate Agriculture Committee,
Washington, D.C.

DEAR MR. BAKER: I am here at the Johnson Foundation working with the Secretariat of the 1971 International Youth Conference on the Human Environment completing the follow-up responsibilities of the conference which was held in Hamilton, Ontario August 20–30. Working on the conference has been a rigorous but extremely rewarding experience. Now that our schedule here has eased a bit, I want to thank you so very much for the time you took to talk with me on the 17th of last month while I was in Washington. The opportunity to exchange news and views with you and with Mark was a most enjoyable one. I spent three days there meeting with others whom I felt shared my concern for improved techniques of "Urban Design" and its role in community development programs; for balanced urban growth and the resurgence of smaller towns and cities; as well as for a truly significant celebration of our bicentennial.

Unfortunately, I did not find many people in the executive departments who shared those concerns or felt that opportunities were available to do something about them. I can appreciate their predicament of lack of adequate financial support and imaginative leadership. However, my discussions with you and Mark and with Senator Humphrey's assistant, Al Sanders, were very encouraging and helped me recognize that these types of experimental demonstrations are desperately needed. As I discussed with you, I strongly sense that a three pronged attack is required for a truly effective and workable national urban growth policy. 1) Maintain and strengthen the current efforts to improve the livability of our major urban centers; 2) Provide new means and methods for smaller towns and cities (the hometowns across the country) to revitalize themselves and become nuclei for more humane and governable population distribution patterns; and 3) Create self sustaining, select new towns that will permit experimentation with varieties of new technologies and systems that, once tried, could be applied within existing settlements. In any case, nothing less than a total commitment to a domestic Marshall Plan will suffice.

I must apologize for not having sent a review draft on applicable design statements for the Rural Development Bill. I have given some thought to it, however, and will share those thoughts with you now. I am still not satsified with their completeness, level of development, or clarity. I will enclose a sheet that has some notes I have jotted down. As you can see from them, in attempting to come to grips with your question of a more appropriate name for "Urban Design", for want of a more imaginative or creative phrase, I am favoring the term "Community Design". The concepts that I feel "Community" represents are: the lack of separation between rural and urban application, between sizes of towns & cities; its applicability to the regional scale, the entire municipal scale, or the sub-municipal scale—the village or the neighborhood; and, finally, the social context—the people orientation—that it implies.

In this respect, the Rural Development Bill could serve another far reaching and innovative purpose in addition to those it already contains. It could go beyond the Comprehensive Plan concepts of Model Cities and 701 under HUD by fostering and making operative the Comprehensive Planning *Process* (or the Comprehensive Community Development Process as I call it in the enclosed material). The difference between these two concepts—between the Plan and the Process—is very difficult to explain, but it is very crucial to the upgrading of local capability to administer and sustain development programs and projects let alone their coordination and interrelatedness. I am enclosing a copy of the description of such a Process which we evolved in Trinidad. I will be happy to pursue this concept for more general guidance and broader reference if you think it has application.

I trust I left a copy of my "Urban Design Demonstration" Proposal with you. In any case, I make the argument there that appropriate quality design has much to do with the success or failure of a project. Stewart Udall wrote that "there is neither practicality nor economy in ugliness, in decay, in despair, in disorder." Vachel Lindsay once observed that, "Ugliness is a kind of misgovernment." The amounts of monies that the federal government is spending on civic structures and improvements warrant its lead in setting requirements for quality design—"not just for an elite, but for all men." Design of this calibre and scope could provide the physical context within which life in our nation's "communities" could be creatively exciting.

How do you insure that quality, excellence, and breadth of design? I would suggest the following alternate strategies realizing that they may require modification of combination or some other strategy that these merely suggest.

(1) Offer annual awards for design excellence from among those projects funded under the program.

(2) Maintain a public education and information program explaining the elements and advantages of excellent design as well as giving examples of quality design widest possible coverage in the mass media and other means of circulation and exposure.

(3) Provide an interdisciplinary review "jury" or board at the Federal Regional Office level (possibly to be utilized by the offices of all departments in each region). This group would be called together on a regular basis to review the submission requests from applicants which would include schematic designs for their particular projects.

The legislation, or at least the departmental regulations and circulars outlining the administration of the program, ought not only require such schematic designs be included in the initial submission but also ought to allow for the total expenditures which the applicant incurred in the preparation of all schematic designs thru design development be an eligible cost under the terms of the loan and be interest free. A stipulation could also be provided for those projects which receive recognition for excellence by the review jury to have the same total amount subtracted from the total repayable principal of the loan. Another alternative would be to provide grants for the preparation of such project proposals and design work, if a competent and reputable design firm or licensed design professional were engaged to do that work.

Please let me know if any of these concepts appear to have some application for your purposes. I will be returning to Colorado later this week and will develop these thoughts further. Thank you once again. My regards to Mark.

RONALD PASSARELLI,
Environic Foundation International.

TRINIDAD, COLO., *September 1971.*

Websters:

Environment—2: The surrounding conditions, influences or forces that influence or modify, as *a*: the whole complex of climatic, edaphic, and biotic factors that act upon an organism or an ecological *community* and ultimately determine its form and survival—of habitat. *b*: The aggregate of social and cultural conditions (as customs, laws, language, religion, and economic and political organization) that influence the life of an individual or *community*.

Urban Design: The architecture of towns and cities.

Economic Design: Possibly too general, too broad not familiar enough a term for public consumption???

Environmental Design: Same problem . . . too elusive for the general public as yet.

Comprehensive Design: No good. Too much confusion with comprehensive planning.

Community Design: Implies social context not limited to any scale.

Rural Design: Same problems of exclusive division that "urban" implies.

Civic Design: Hints at monuments and an inhuman scale.

RONALD PASSARELLI.

NORMAN, OKLA., *September 8, 1971.*

Senator HUBERT H. HUMPHREY,
Chairman, Rural Development Subcommittee,
Senate Office Building,
Washington, D.C.

GENTLEMEN: I am an engineer, and our organization has been working very closely with the Farmers Home Administration for the last eight years and has seen the steady growth of the rural programs. First, let me say that the Oklahoma State Farmers Home personnel are, in my opinion, dedicated government workers. They have a mission to improve rural life, and they work long hours and work with the people and are accomplishing the mission.

Now I would like to discuss the program for rural water systems. We have made comprehensive water and sewer studies for twelve counties, and I would sure like to see them implemented. I have worked with rural residents who have been hauling water for over twenty years since the ground water in many parts of Oklahoma has become contaminated with salt. A 1,000 gallons of water to most people with piped in water is just the minimum billing. To the farmer with a tank on a half-ton pickup, it is over four tons of water, or two days work and six to eight trips to the town water point where he can purchase the water.

The Farmers Home Administration prides itself in the fact that it is operating a self-sustaining business, a revolving fund for our taxpayers. Therefore, on this basis they have been assisting water boards in establishing water systems that are self-supporting. This is fine, this is the American way of life, and the rural resident has lived this way for years, making his living from the soil. The only catch to this is that the systems are not always up-to-snuff. The water pressure depends on pulsating pumps pushing water through limited size piping With grant money these sytems could be built to meet requirements more adequately, resulting in a well-engineered system.

Let me call your attention to the present day means of financing in cities and towns. The average governing body will not undertake a basic water or sewer project for their community without applying for a basic grant. These grants in almost all cases are 50% or more. If the community is fortunate enough to be in an E.D.A. area, they can obtain 80% money to construct these facilities to support industry which will result in jobs. I believe that the criteria is $8,000 in grant money for each projected job. Compare this to the F.H.A. water program. A 40-year loan at 5% interest based on $1,500 per family for basic water. These people need the grant since they are a basic working family, and a grant may help in retaining these families in the rural community.

It is my recommendation that this committee review this program and increase the grant money to cover at least 50% of these most needed water projects so that our rural residents can continue to be productive and make their living in rural America.

This program would not be a hand out but would be a helping hand.

Thank you for this opportunity, and I do hope my thoughts will be of value to this committee.

Respectfully submitted.

JACK R. KALMAN,
President, Kalman & Associates.

Statement of William E. Laird, Department of Economics, Florida State University, Tallahassee, Fla.

INTRODUCTION

America is faced today with the unpleasant reality of rural areas that are stagnating and declining, while the larger cities are beset with seemingly insoluble social and financial problems. Perhaps the most important underlying cause of both the urban and the rural problem is that of an inadequate expansion of private jobs in the nation's rural areas in recent decades. The scarcity of rural jobs has created a persistent pressure for out-migration. This continued rural out-migration, forced by inadequate job opportunities, has contributed greatly to urban difficulties while it has failed to produce satisfactory economic conditions in the rural areas. The need today, which has persisted for many years now, is for a more rapid expansion of private job opportunities in the rural-small town areas. New jobs are needed to reduce the level of forced migration into the larger cities and to provide a better balance of geographic population distribution. The programs contained in S. 2223 would contribute quite significantly to that end.

LOOKING BACK ON RURAL DEVELOPMENT

The decline of farming (as well as mining) was not met with programs to facilitate the transformation of the rural-small town economic base. Attempts were made to bolster farming, but little thought was devoted to diversifying the economic base of farm (or mine) areas by attracting new industry to offset the decline of the old principle industry. The fact is that we have never really thought in terms of "industrial mobility" as a means for alleviating employment problems, and even the term itself still seems strange to most people today.

The efforts to bolster farming were, of course, doomed to only limited success because the rapid technological progress which swept agriculture greatly increased output per man-hour, and consequently lessened the need for farm workers. Without an offsetting non-farm (and non-mine) demand for labor, the declining demand for farm (and mine) labor meant unemployment, underemployment, withdrawal from the labor force, and, of course, rural to urban migration. With the migration came new problems for both rural and urban areas.

In retrospect it is evident that something akin to S. 2223 should have been enacted decades ago. With such legislation our economy would look rather different today in terms of geographic employment opportunities and the distribution of population. Our rural-small town areas would be far more diversified and they would be sharing in the nation's prosperity to a much greater extent, while our cities would be less congested, polluted, and noisy. Our small towns would have experienced a more "normal" growth rather than widespread stagnation and out-migration. They would have experienced greater prosperity and the transition from farm to non-farm employment would not have been so slow and difficult had local jobs been more abundant. With programs similar to those contained in S. 2223 we could have made our agricultural adjustments less painfully and probably less expensively. Our urban development would then have been more orderly and beset with fewer frustrations.

The inefficiency and human costs associated with inadequate rural opportunities remains, and the need for programs to assist rural-small town areas persists today. The prevailing rural to urban migration continues to complicate the problems of both areas. Forced migration still pushes families from their preferred locations, while rural-small town stagnation prevents others from returning to a preferred life-style.

SOME OBSERVATIONS ON THE RURAL TO URBAN MIGRATION

The continuing rural out-migration has not been based primarily on the migrants' preferences for living in an urban area. Rather then responding to the "pull" of the urban environment, they have been "pushed" out of the rural areas by dismal current economic circumstances and dim future prospects. Many of the migrants have merely become urban slum dwellers and welfare cases. Migration has not really solved either their personal problems or the problems of those in the rural areas they left. Their arrival in the slum, however, has added greatly to urban problems.

Continued rural-small town to urban population shifts promise to add to the problems of both areas. Rapid urban growth creates exceptionally heavy capital demands as cities attempt to deal with the side-effects ("externalities") of in-migration. These externalities include congestion, noise, and pollution. More complex transportation facilities are needed, as are additional health and recreation facilities. Police requirements also rise rapidly with increasing congestion. The financial (and other) problems of the cities can be traced in large measure to past in-migrations.

The rural-small town areas which have lost population have also been adversely affected. The population loss has contributed to economic stagnation, which in turn has contributed to further population loss. The loss of population has discouraged needed private investment and drained capital from these areas. It has also depressed real estate values and governmental revenues, and has retarded advancements in the quality of local services and life. The externalities of the rural to urban migration have been significant indeed.

Migration as we have known it in recent years has too often involved a complete (and unwanted) change in life-style and a substantial segment of those workers forced out of the rural-small town environment have not adjusted very satisfactorily to the urban environment. Too many have failed to find employment even after migrating. There are a variety of reasons for this poor adjustment, but most of the reasons reinforce the point that continued heavy reliance on labor mobility is likely to generate new problems while not really solving old problems. Even among those who have moved and *found* employment many would have preferred a job at home, even a lower paying job than might be obtained elsewhere. This is because a job at home would carry non-monetary benefits which some would consider of great value.

The rural out-migration has been selective rather than being a normal cross-section of the population. The outmigration has not been confined to the relatively unskilled, but has also drained the rural areas of the more skilled and better educated, and it has taken disproportionately from the young. The older people have tended to remain. Many potential leaders have been forced to leave and this loss has adversely affected both the economic potential and the quality of life in the rural-small town areas.

IMMOBILE RURAL LABOR: PROBLEM AND OPPORTUNITY

Despite the comparatively high level of out-migration a substantial portion of the rural labor supply is relatively immobile and is likely to remain so. Many people have chosen to remain in rural areas despite poor economic prospects. Their reasons for remaining are diverse, but they are often strongly influenced by non-economic factors including family ties, friendship, physical environment, recreational opportunities, and life-style preferences. Given the importance of these non-economic factors in their personal values, their decisions to remain at home are rational. Their relative immobility means, however, that they may be underemployed. This persistent underemployment is a problem for public policy, but it also provides an opportunity for growth which is not widely appreciated.

A substantial labor supply is available in many rural areas across the nation. The potential labor supply is greater than would be judged from merely observing official unemployment statistics. In addition to the measured unemployment, one must also consider *underemployment* and *withdrawal from the labor force*. There is a substantial "secondary labor force" of individuals (especially women) willing and able to work, but who are not actively seeking employment because there is obviously no work to be found. Labor force participation rates are noticeably low in many rural areas, which indicates an important potential source of labor for many types of industry. Within wide limits the labor force adjusts to the availability of jobs in these areas. But this potential labor supply will remain underutilized for the foreseeable future unless there is an expansion of jobs nearby.

This underutilized rural labor provides an opportunity for economic growth which has been largely neglected. It is clear that the fuller utilization of rural resources—including labor—will increase the total national product. (Indeed, many Europeans are now viewing their own underemployed rural workers as a source for new economic advances.) The credit and other programs contained in S. 2223 should produce a net increase in national output by securing a more effective utilization of our rural labor supply as well as our rural resources.

Rural job development is feasible and the true economic costs would be small. The increase in national output should be considerable in assessing the true costs of the S. 2223 programs. The *actual* costs will be well below the apparent costs since national output will be boosted by the programs and tax receipts will rise from those workers who are either newly employed, more fully employed, or more productively employed because of the program.

BROADENING THE COMMITMENT TO FULL EMPLOYMENT

Public policy should recognize explicitly that individuals and families often have strong location and life-style preferences, and that these preferences are generally quite rational, even though non-monetary in nature. These preferences are not going to disappear and public policy should make concessions to this reality because it affects employment and the utilization of our nation's resources.

The national goal of full employment should be broadened to consider people's location and life-style preferences. Indeed, if these preferences continue to be ignored it may not be possible to maintain genuine full employment. Rather than thinking only in terms of a "full employment level of aggregate demand" and average unemployment rates, policy should be conceived in terms of maintaining sufficient vigor in all geographic sectors so that individuals can, in fact, have a broader choice regarding where they will work, live, and raise their families. Many people would prefer to live in either a rural area or a small city, but they are unable to exercise this important preference because of the economic circumstances in these areas. Every day others with the same preferences are forced to move to the urban centers. No practical means exist for eliminating *all* forced migration in a free enterprise economy, but there are abundant and reasonable means for greatly reducing the existing level of forced migration while boosting employment and output. A marginal increase in industrial mobility should accomplish the goal.

The commitment to full employment has never been conceived in terms of measures to increase industrial mobility, but has rested upon the twin assumptions that labor mobility actually *was* sufficient for the economy to attain full employment, and that labor mobility did not have important adverse side effects (or "externalities"). The experience of the last few decades has brought both of these assumptions into question. It is most significant that S. 2223 recognizes the necessity of increased industrial mobility to attain a fuller utilization of our resources, and that high levels of labor mobility can have undesirable side effects.

Incorporating locational preferences into the full employment goal is entirely realistic, provided a perfectionist attitude is not adopted. Rural locations are quite suitable today for an increasing array of business activities. Industries are no longer tied so strongly to raw materials sources and the transportation system likewise allows substantial freedom today in business location relative to markets. The interstate highway system has been quite important in this development. The fact is that industry is increasingly footloose with respect to location and this increased freedom provides ample opportunity to improve the geographic distribution of industry. Since location is less critical today, it can be more easily influenced than in earlier years. The expanded freedom in location means that location can be influenced *with no loss of economic efficiency.* This fact is not as widely appreciated as it should be. Industrial mobility is more promising today than ever before and the comprehensive rural credit system proposed in S. 2223 will promote industrial mobility. New and expanding firms will take notice of these programs.

THE APPROPRIATENESS OF S. 2223 PROGRAMS

The programs and incentives contained in S. 2223 are quite appropriate to the task of rural-small town revitalization. There are specific developmental barriers which must be overcome to provide new jobs. There is a shortage of credit and venture capital. The liquid capital generated in the rural areas is frequently drained away rather than reinvested. An expansion of available credit on reasonable terms and new venture capital are required. The Rural Development Credit System will fill an obvious gap. There is often a lack of expertise in rural-small town areas on the basic mechanics of industrial development. The provision of technical assistance will be of great value. The lack of certain amenities and community services make many rural places less attractive to new firms. Assistance is provided in this area. The rural development incentive payments can overcome a variety of specific handicaps.

The developmental barriers facing rural areas are real, but they are neither permanent nor insurmountable. It is essential that these barriers be overcome, however, if a self-sustaining process of job development is to get started. The fact is that industry is needed to encourage further industrialization. The main problem is to get the process started with sufficient momentum, and I believe the credit and other programs in S. 2223 can accomplish this task by encouraging the location of new firms and branch plants in rural-small town areas.

The approach of S. 2223 is well conceived and comprehensive. There are significant costs involved in delaying the solution to rural employment problems and a program less comprehensive than S. 2223 may ultimately prove more expensive by allowing a further buildup of both rural and urban problems.

SUMMARY AND CONCLUSIONS

Labor mobility has long been the orthodox answer to rural unemployment, but our experience with migration has been ironic. On the one hand, labor mobility has not been high enough to achieve full employment even in the long run. Employment problems have persisted in rural areas, even in periods of high national prosperity. On the other hand, labor mobility has been so high that it has created significant adverse side effects and a series of problems for public policy. Migration has, in a sense, been both too high and too low.

The force of events indicates that the old orthodoxy of labor mobility must be challenged and a new approach adopted which involves increased industrial mobility. Increased industrial mobility would reduce forced rural out-migration and expand employment while providing individuals and families with increased opportunities to satisfy their location and life-style preferences. It is now more practical than ever before to bring jobs to people. Rural-small town locations are quite suitable today for an increasing array of business activities, and industry is increasingly footloose with respect to location, which means that location often can be influenced with no loss of economic efficiency. The comprehensive Rural Development Credit System and related programs proposed in S. 2223 will encourage new and expanding firms to settle in rural-small town areas. The resulting increased employment of the underutilized rural labor force will contribute to national growth, as well as promote a more satisfactory geographic distribution of industry and population.

Rural-small town areas face specific developmental hinderances and the S. 2223 programs are well conceived for overcoming these particular handicaps. The industrial mobility approach contained in S. 2223 is appropriate for the task at hand and should increase the overall efficiency and livability of the economy.

PITTSFIELD, MASS., *September 14, 1971.*

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.
Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development,
U.S. Senate, Washington, D.C.

GENTLEMEN: In reply to your letter of August 10, 1971, the Berkshire County Regional Planning Commission at its meeting of August 19, 1971, reviewed the proposed Consolidated Farm and Rural Development Act and unanimously endorsed and strongly urged the passage of Senate Bill 2223.

Experience has shown the Commission that in the predominantly rural Berkshire Region, improved rural financing resources are urgently needed. The rural private sector does not have the high per capita incomes found in the great metropolitan areas. Municipal services are generally more expensive on a per capita basis in rural areas than they are in urban areas because low densities preclude the achievement of economies of scale. New standards imposed by environmental programs such as water pollution abatement, air pollution control, and solid wastes management, have placed enormous per capita costs on both the public and private sectors of our rural areas.

We would note two suggestions: that the definition of *rural area* be "any municipality within a State or the Commonwealth of Puerto Rico which is not part of a standard Metropolitan Statistical Area"—this definition would provide for a more ready and standardized distinction between "rural" and "urban" areas, without leaving any undefined "grey" area in between; and that the definition of *District Rural Development Credit Agency* be revised to preferably be the same agency or part thereof which is designated as the Regional Clearinghouse by the United States Bureau of the Budget pursuant to Title IV of P.L. 90-577 of the Intergovernmental Cooperation Act of 1968.

As a multi-jurisdictional comprehensive planning district established under Chapter 40B of the General Laws of Massachusetts, this Commission is ready to pursue the objectives of the proposed Consolidated Farm Rural Development Act. We believe that governmental efficiency and direct citizen benefits can be improved through the encouragement of intermunicipal areawide approaches.

Very truly yours,

KARL HEKLER,
Director, Berkshire County (Mass.)
Regional Planning Commission.

WASHINGTON, D.C., *September 22, 1971.*

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Senate Committee on Agriculture and Forestry, Old Senate Office Building, Washington, D.C.

DEAR SENATOR HUMPHREY: The members of The American Forestry Association note with pleasure your proposal in S.2223 to establish for non-farm rural development an across-the-board investment and credit system similar in purpose and operation to the combined operations of the Farm Credit Administration and the Farmers Home Administration in the farm credit field. We are familiar with the excellent record of the Federal Land Banks, the Production Credit Associations and similar organizations in which every dollar advanced by the Federal Government has been repaid through the various loan programs. It is important that similar sources of credit be made available to rural communities so that they may borrow and pay back development funds without being forced to exist on the vagaries of outright grants.

Most of the provisions of S.2223 meet with our approval. However, we have reservations about Sec. 710 which provides that "the Federal Rural Development Credit Agency shall have . . . personnel qualified to give advice in . . . fishing and fisheries; forest production, marketing and processing; minerals and mining; tourism and outdoor recreation; water, and water distribution, and solid waste disposal; multiple purpose water development . . .".

Well qualified professionals in all of these fields already are availabe to the Federal Government in various agencies of the Department of Agriculture and Interior. Can not their services be obtained on a reimbursable basis? Why is it necessary to set up a whole new cadre of experts with career ladders, training programs and so forth?

We strongly urge that Sec. 710 be re-drafted to make use of existing personnel in the Federal Government.

Sincerely,

KENNETH B. POMEROY,
Chief Forester,
American Forestry Association.

TUCSON, ARIZ., *September 15, 1971.*

Congressman MORRIS K. UDALL,
Second District of Arizona, Congress of the United States, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN UDALL: I apologize for not answering your wonderful letter of August 3 earlier. Unfortunately, I received the letter just a few days before I left for the annual meeting of the American Agricultural Economics Association, from which I went directly to Tehran, Iran where I headed the U.S. Delegation to a Central Treaty Organization sponsored Conference on Agricultural Planning and Policy. I am just now getting back to the office and reorienting my thinking back to our own problems here at home.

I am enclosing a copy of a paper I presented at the AAEA meeting. It was a discussion of a paper by Dr. S. R. Sen, one of the Executive Directors of the World Bank group concerning, "Whither Aid?". The paper was directed at my own profession, thus is considerably blunter and more direct than I would normally be.

Your letter specifically asks for my views concerning Senator Humphrey's proposals in the Consolidated Farm and Rural Development Act.

The goals are excellent. Specifically, the creation of a rural development credit system is definitely a step in the right direction. Capital is the "key" to getting development going in the rural areas. However, the problem is twofold—first, to make it (capital) available and second, to make it profitable. To make the capital available will spur some development, I am sure; however, I suspect that there must be some changes in the rules of the game made which will help to make it profitable before we get all of the development underway which is needed.

I urge you to support the proposal; however, several aspects do, in my judgment, need careful scrutiny and amendments may be in order. If the option were to take the package as it is or to get nothing, by all means, take it as it is!

The general division of responsibility outlined in the proposal makes very good sense; i.e., one administrator responsible for REA, one administrator responsible for farm production capital (loaning *only* for agricultural purposes), and one administrator for the nonfarm rural development program. Although there will be much overlap, these are identifiable entities which represent a reasonable breakdown in activities. I would hope that the agencies over which the administrators had jurisdiction would not be the "watertight" compartment type. Flexibility is in order because integrated operations may reach across the boundaries of two, or possibly all three, of the agencies; i.e., a farm production-marketing complex.

I am especially pleased with the proposal to establish the Federal Rural Development Credit Agency because it provides the opportunity to focus attention on the critical problem. One problem the "old line" USDA and other agencies have had is that they have been involved with so many interests and different "clienteles" that their effort has been splintered and diverted. There is definitely a need to focus attention on the rural development credit problem.

The establishment of regional Rural Development Credit Banks (RDCB) is excellent, and I regard this part of the proposal as the most important and vital part of all. The banks will provide a badly needed channel through which the rural areas can reach into the money markets of the United States.

I especially like the idea of organizing the RDCBs along the lines of the Farm Credit Administration. The RDCB will therefore be free to loan as much capital as they can successfully lend. It is important they not be limited to funds available from the federal government. However, I cannot help but wonder whether we may not be trying to "ride a good horse to death." I note that there is legislation before Congress now which would authorize a number of agencies to utilize this same technique. A few months before his untimely death, Governor Robert Tootell (Farm Credit Administration—retired) and I were visiting and he expressed concern about whether the number of bonds of the Federal Land Bank—Bank for Cooperatives—fanny-mae-variety, being dumped on the market during the next five years might not saturate it, and therefore the bond market no longer be a reliable source. For example, he and I made estimates of the total amount of bonds which could conceivably be offered for sale during the next five years, and we concluded that it would possibly be as high as twenty-five billion dollars worth. I wonder whether the market is thick enough to sustain this? If not, who is going to get caught? I am not able to answer either of these questions, and I feel they need further investigating.

It may be necessary for the RDCB to limit its lending to those agencies which cannot obtain credit from existing banks for political reasons; however, I do not like the idea. We need an additional financial institution in the total system. We need additional channels. The additional channel *should* provide competition for the existing financial agencies. I see no reason why the banking system cannot compete. The Farm Credit Administration has certainly not been able to "drive the bankers out of business"; however, the system has provided them with some very healthy and, in my judgment, badly needed competition. I feel that the banking community would, in the long run, be better off with additional competition. The commercial banks are not without sources of funds.

I am concerned about the way in which "soft loans" and "hard loans" will apparently be run together in a single agency. This seems to me to be a very sticky business, and could lead to many unnecessary problems. Would it not be better to possibly create two agencies, one a new channel that would provide competition, but be limited to sound loans based upon repayment potential, and another for soft loans where the risk is obviously high to the point where it is not reasonable to expect repayment under normal financial procedures? The latter group, like the Farmers Home Administration today, could possibly be limited to appropriated funds made available by Congress. There is nothing basically wrong with fusing the two types of functions mentioned above, but my experience leads me to believe that it might be better to separate them.

I am also somewhat concerned about the fusion of lending and servicing state and local governmental organizations, and those things which could be construed to be profit-making opportunities. It seems to me that these two activities should at least be handled by separate and distinct divisions within the system, and possibly by separate organizations.

The proposal to leave the Banks for Cooperatives much as they are today is a very sound move politically, but economically it makes little sense. In my judgment, the Banks for Cooperatives could very readily be reorganized to serve the function of lending for hard loan purposes for all non-agricultural production, rural development, private enterprise needs. If we keep the Banks for Cooperatives just as they are today, I am not sure that the cooperatives will be adequately encouraged to play the role in the development of the rural areas that I would like to see them play. Frankly, I would like to see the cooperative method of doing business receive greater encouragement as a tool for the development of the rural areas. If the Cooperative Banks remain as they are and a new organization is set up, I sense that the new organization may tend to give greater emphasis to the non-cooperative businesses. I see no necessary need for this being the case. Both cooperatives and non-cooperatives should be able to become members of the development bank, have a vote, and receive patronage refunds.

The Federal Rural Development Credit Agency should indeed be authorized to undertake a broad program of technical service covering all of the problems for which loans could be made. This is a laudable aspect of the proposal; however, the first order of business for the Federal Rural Development Credit Agency should be to create viable economic enterprises. The services funded should, in my judgment, be directly related to the financial function. If this is not done, then the agency could turn into a blunderbuss and its energy be dissipated with little net gain, which is the situation we now face in the USDA and elsewhere.

I sincerely hope that these comments will be helpful. Again, I apologize for the delay in replying to your excellent letter. Thank you so much for your interest.

Incidentally, I was pleased to note a few days ago that Senator Humphrey is pushing for a "rural development coalition." I hope he is successful.

Sincerely,

JOHN L. FISCHER,
Department of Agricultural Economics,
University of Arizona.

ASHBY, MINN., *October 20, 1971.*

Hon. HUBERT H. HUMPHREY,
U.S. Senate, Washington, D.C.

DEAR SENATOR HUMPHREY: The Ashby Federal Credit Union Board of Directors went on record in support of Bill #S2223, The Consolidated Farm and Rural Development Act, which you co-authored in the Senate. We strongly support and urge the passage of this bill.

Thanks again for your outstanding performance and interest in our rural area.

Sincerely,

ARNOLD A. OLSON,
President, Ashby Federal Credit Union.

SILVER SPRING, MD., *October 20, 1971.*

Senate Committee on Agriculture, Subcommittee on Rural Development, Old Senate Office Building, Washington, D.C.:

Greenbelt Consumer Services, Inc., the nation's largest Consumer Cooperative, wishes to go on record as supporting S.B. 2223.

It is well known that much of our citizenry below the poverty level reside in rural areas. It is also well known that cooperative and other self-help programs made available to rural residents have been sound investments in uplifting those in need and maintaining a quality of life for many who never gain a fair return from the economy for the input they make.

Cooperatives are the essence of self-help. Self-help projects, both economic and social, should be encouraged by this government and we believe the passage of the Consolidated Farm and Rural Development Act is a way to do this. Such an agency, properly administered, would give confidence, guidance and encouragement for new projects in the self-help area as well as accelerate growth of those already in existence. To the extent that it gives people more strength in the marketplace, reduces waste or costs, not only do the participants benefit but the nation is strengthened as well.

Sincerely yours,

Robert J. Dressel,
Chairman of the Board.

Milwaukee, Wis., *October 1, 1971.*

Senator **William Proxmire,**
Senate Office Building,
Washington, D.C.

Dear Senator: Two brief suggestions:

Under present Internal Revenue Code as I understand it, a person over 65 may dispose of their residence and not incur a capital gains tax. With the great changes taking place in our society, and the very strong movement toward earlier retirement, I think it would be to the advantage of both the older citizen and the society as a whole, if we reduced this to either age 60 or age 55. Many people, as they approach retirement age, would like to begin retrenching, either in cost of living quarters or the physical effort required to maintain them.

Putting these older larger homes on the market earlier, would be helpful to the older citizen and also to the young family needing larger quarters.

Second: I am a traveling salesman, and cover 8 midwestern states and observe much that is of interest in the small towns. It appears to me that we could resolve many of our urban conflicts if we were able to offer housing to some of the 'ADC' families, and others in like circumstances, in the smaller towns.

Traveling, I notice many older homes that are vacant in the small towns, fully equipped with plumbing, heating facilities and electricity, but vacant. And talking to many older businessmen in these communities, they mention an interest in selling their older large homes, and moving into smaller quarters now that the chicks have flown, but refraining from doing so because they can neither sell nor rent their present homes.

If some method could be arranged to bring these families to the small town, they would have far better living conditions than they have at present, the school facilities in many instances would be more than adequate to provide for additional children, and the advent of new families in these communities, even families with very low incomes, would re-vitalize many of the small businesses in these towns.

I would appreciate your considering these points, and possibly incorporating them in your own program.

Cordially,

s Schall.

Department of Agricult ,
Office of the Secretary,
Washington, D.C., September 30, 1971.

Hon. **Herman E. Talmadge,**
Chairman, Committee on Agriculture and Forestry,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: This is in reply to your request of July 14, 1971, for a report on S. 2223, a bill to amend the Consolidated Farmers Home Administration Act of 1961 and for other purposes.

Title I of the proposed legislation broadens the loan and grant authorities of the Farmers Home Administration to permit the funding of industrial development, health facilities, public works and a wide range of other rural community development projects, in addition to the agency's present authority to financing housing, community services and farmer programs. The present FHA grant authority would also be increased from $100 million to $300 million, and the agency would be authorized to provide its services in cities of up to 35,000 population. In addition, under the proposed legislation, FHA would be divided into a Farm Development Administration and a Rural Enterprises and Community Development Administration and placed along with the Rural Electrification Administration under a new Assistant Secretary of Agriculture-Rural Development Credit.

Title II of S. 2223 would create a new Federal Rural Development Credit System of borrower-owned rural development credit banks and related financial institutions and services in order to furnish supplementary credit for a wide variety of public and private development projects in nonmetropolitan areas.

S. 2223 reflects the growing Congressional interest in undertaking new approaches to the development of rural America. This interest is shared in full measure by the Department and the Administration generally.

The President's proposals for reorganization of the Federal government and his general and special revenue sharing proposals are aimed at assuring that the nonmetropolitan areas of the country receive an equal share of attention and resources in the expenditure of Federal funds and the delivery of Federal services.

This Department can also point to a significant growth in its commitment to rural development activities. Proposed funding of major rural development programs by the Department in FY 1972 will be more than four times the level for FY 1961 and more than twice the level for FY 1969. Thirty-one of 39 programs have been increased above FY 1969 levels.

The Department at this time does not recommend the enactment of S. 2223. The objectives of this bill can be gained more efficiently and at less cost through an expansion and improvement of existing programs, approval and implementation of the President's reorganization and revenue sharing proposals, and the development of better methods of channeling credit funds into specific rural areas where national growth policies would indicate the need for supplementary financing of public and private development that is not being funded through existing public and private sources.

We are enclosing an appendix to this report which gives the Department's position on S. 2223 in detail and describes some of the approaches now being considered to improving the credit position of lagging rural communities.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

J. PHIL CAMPBELL,
Under Secretary.

(The appendix is as follows:)

U.S. DEPARTMENT OF AGRICULTURE STATEMENT CONCERNING S. 2223—JULY 23, 1971

Title I of S. 2223 would broaden the loan and grant authorities of the Farmers Home Administration to permit funding of industrial development, health facilities, assorted public works and a wide range of other rural community development type projects, in addition to the present housing and community services programs for rural communities and farmer programs. The grant authority of FHA would be increased from $100 million to $300 million. The agency would be authorized to operate in cities of up to 35,000 population or more populous areas if this was found suitable to promote rural development. In addition, FHA would be divided into a Farm Development Administration and a Rural Enterprise and Community Development Administration and placed along with the Rural Electrification Administration under a new Assistant Secretary for Agriculture-Rural Development Credit.

Under S. 2223 the Rural Enterprise and Community Development Administration would provide supplementary credit and supervisory assistance for new or expanded projects and enterprises. S. 2223 would, in effect, introduce an additional Federal agency into areas of operation that are already the responsibility of other Federal departments and agencies, including the Economic Development Administration, the Small Business Administration, the Department of Housing and Urban Development, the Department of Health, Education, and Welfare, the Department of Labor and other agencies whose responsibilities extend to smaller population areas as well as larger cities. Creation of such an agency in the Department would serve to worsen the already serious problem of Federal agency proliferation, overlap and confusion in both the planning and administration of programs at all levels.

In addition, in order to carry out this provision of the Bill, the Department would probably be required to establish an entirely new set of field offices parallel with the offices of the proposed Farm Development Administration, which would be responsible for present farm lending programs of FHA. Due to the expanded and highly complex mission of the proposed Rural Enterprise and Community Development Administration and the many specialists that would be required to accomplish this mission, it is unlikely the county office structure of the Farm Development Administration could be utilized for this purpose. Therefore, it would probably be necessary for the proposed Rural Enterprise and Community Development Administration to establish additional field offices.

The President has proposed legislation to establish a new Department of Community Development that would bring together under a single coordinated management the many diverse Federal programs and agencies now providing assistance to rural and urban communities. The President's proposal would result in superior organizational arrangements to the restructuring and expansion of the FHA community programs provided for in S. 2223.

Title II of S. 2223 would create a new Rural Development Credit System to meet part of the need for increased investment in rural areas by establishing a system of borrower-owned financial institutions to give rural areas access to the central money markets of the nation. The System would consist of a supervisory Federal Rural Development Credit Agency, a Federal Rural Investment Equalization Administration and three sets of institutions to make loans for rural development purposes: participating public and private financial institutions, District Rural Development Credit Agencies, and Regional Rural Development Credit Banks.

The System would provide supplementary financing for rural development purposes, defined as any public or private project contributing to a reasonable national growth policy and the enhancement of rural areas. Appropriated funds would be made available through the Federal budget in the amount of $2 billion for the purchase of capital stock in the Regional Banks by the Federal Rural Development Credit Agency and in the amount of $300 million annually for interest supplements and capital augmentation payments. Technical and advisory assistance for borrowers and research and fact-finding related to area economies and economic development would also be an important responsibility of units of the System.

The most serious question to be raised about the proposal contained in Title II of S. 2223 is whether economic conditions in nonmetropolitan areas have deteriorated so seriously that a massive, potentially costly, and administratively complex effort of the kind proposed is now required. The nonmetropolitan regions and subregions of the country differ greatly in the major problems they face, their social and economic conditions, and growth potential. Some rural areas are growing rapidly, with an expansion both of economic activity and population pressures. In other areas, there is stagnation and economic decline and a general deterioration of the community fabric. A less costly and, in the long run, more effective approach to the problems and needs of the latter would be to expand selected existing supplementary credit programs and improve present methods of channeling private investment into selected rural areas for the specific purpose of implementing national growth policies. In addition, there is also a pressing need for more flexible Federal grant assistance to states and localities for necessary and essential community services that can support long-term development programs.

The President's proposed rural revenue sharing program would direct $1.1 billion of Federal funds into nonmetropolitan areas for purposes similar to those defined as rural community development projects in S. 2223. Rural revenue sharing is intended in part to finance projects and activities that will enable rural communities to improve facilities and services which provide a better climate for private investment. In addition, rural revenue sharing funds may also be used by state and local governments to give credit assistance through locally sponsored institutions to accelerate expansion of commercial and industrial enterprises.

Policy and administrative flexibility is built into the rural revenue sharing proposal to enable state and local officials to pinpoint the geographic areas of greatest need and to give priority to funding those projects that will lead to the greatest measure of expansion and improved opportunity. In specific areas where shortages of private investment capital were seriously retarding development, rural revenue sharing funds could be used as "seed" capital for investment. The establishment of state and local institutions for this purpose is much preferable to creating an additional nationwide Federally-sponsored credit system.

The Administration is also moving on several additional fronts to provide for orderly financing of major development programs now funded outside the regular appropriated budget. S. 1015, now pending before Congress, proposes the establishment of an Environmental Financing Agency to establish a mechanism for the purpose of marketing bonds and obligations issued by incorporated areas to finance water and sewer systems. The Environmental Financing Agency would offer its own securities for sale in the central money markets and use these funds for the purchase of municipal bonds.

The President has stated that he will also propose legislation to provide for coordinated financing of government credit agencies in the capital market. It is expected a proposal will be made to Congress to create a Federal Financing Bank to provide a mechanism to market the securities and obligations of government agencies which finance their programs through the sale of securities or other instruments in the private capital markets. The intent is to replace with a single marketing mechanism the present proliferation of marketing efforts by the several agencies financing their programs outside the budget. This would bring order and stability into this sector of the market.

A principal objective of the Rural Development Credit System proposed in Title II of S. 2223 is to increase private investment in rural development projects in areas where such investment now is lagging.

To accomplish this objective, sizeable and continuing Federal subsidies would be required. This expectation is stated in Section 801 as a policy objective of the Bill. The mechanisms to be used in the implementation of the policy, interest supplements and capital augmentation payments, are provided for in Sections 804 and 805. In addition, under Section 707 appropriations are authorized to augment the special Treasury fund to cover administrative expenses during the first five years of the System's operation.

The difference between the total cost of operating the System and the return from collections on loans would be covered by appropriated funds advanced by the Treasury Department pursuant to appropriation action by Congress. This method of financing would, of course, provide a high degree of leverage to the Federal funds used for subsidy purposes, but it would remove from the discipline of Federal budgetary controls the greater part of the System's lending operations and would result in continuing and substantial levies against Treasury funds to cover the subsidies.

The financial apparatus proposed in Title II of S. 2223 appears overly complex and has certain dubious administrative features, for example, the establishment of district Rural Development Credit Agencies as financial institutions of multi-jurisdictional planning and development districts of the states. This proposal would assign complex credit functions to quasi-public organizations established primarily for substate regional planning which lack competency in commercial credit practices and administration.

Progress toward the designation and successful operation of planning and development districts varies considerably from one state to another. These multi-county units in some states are without the necessary legal basis and state administrative support to provide a reasonable assurance of their competent operation, even at the level of development planning administration. In rural areas, particularly, they may be limited in staff, experience and broad-based local support.

In addition, the present districts have geographic boundaries determined on the basis of a variety of factors having little to do with the administration of a new credit program within the boundaries of the district. For example, some might be too small for this purpose, if economies of scale were to be obtained.

There is also the added factor that multi-county planning units, if given adequate administrative resources, can and should be major technical and administrative aids to local government and private organizations in planning for and managing development in nonmetropolitan areas. If such agencies now become directly involved in the establishment and operation of District Credit Agencies under the proposed System, they would probably be required to devote most of their resources to this responsibility, thus neglecting responsibilities to the larger rural community for comprehensive planning and management assistance.

Under S. 2223, public bodies, including units of local general government, would be authorized to receive funding through the Rural Development Credit System. State statutes generally restrict the authority of local general purpose units of government to assume credit obligations. Unless these statutes were changed, many such units of local government would not be able to utilize the System to any great extent. State designated planning and development districts also would be eligible borrowers under the proposed legislation. At present, very few such organizations have the authority to undertake borrowings for public purposes due to restrictions in the enabling statutes creating them.

It can be expected that the administrative cost of operating the proposed Rural Development Credit System will be substantial. Administrative costs of the Farm Credit System are approximately $136 million annually for all purposes. The Farm Credit System is relatively simple in objectives and operation compared with the proposed Rural Development Credit System. The latter would be engaged in additional complicated lending operations and would be providing loans, guarantees, loan participations, etc., for many other purposes, i.e., housing, industrial development, community facilities, etc. Both the Regional Banks and the District Credit Agencies would be responsible for providing technical assistance to borrowers on a continuing basis and, in addition, the Federal Rural Development Credit Agency would provide numerous services related to economic analysis and reporting and technical assistance. The agency is required also to employ a staff adequately equipped in the field of development banking to give advice in all fields and activities for which the System would provide financing.

Sections 708 and 710 authorize and require the Federal Rural Development Credit Agency to "undertake research into the rural development and credit needs of the rural areas of the Nation and ways and means of meeting such needs . . ." and to "have . . . personnel qualified to give advice" in a wide range of fields of interest to local governments and people in rural areas.

These broad authorities duplicate the authorities and programs of the research and extension agencies of the USDA and the Land Grant Universities.

The existing research and extension agencies have qualified and experienced staff who can perform these services effectively and efficiently. The Department objects to these provisions because of the unnecessary duplication of staff and service and because existing programs can be expanded to serve growing needs at lower cost than under these provisions of this legislation.

The sizeable costs of the foregoing administrative and management services would, of course, be in addition to the interest supplement and capital augmentation payments authorized by S. 2223.

ENVIRONMENTAL PROTECTION AGENCY,
Washington, D.C., September 30, 1971.

Hon. HUBERT H. HUMPHREY,
Chairman, Subcommittee on Rural Development, Committee on Agriculture, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request for our views and recommendations on Senate bill S. 2223 and Amendment 153 to S. 1483. You have requested that we give particular attention to the most effective ways in which the credit institutions proposed in the bills could supplement rather than compete with the credit programs of this Agency.

S. 2223, a bill "To amend the Consolidated Farmers Home Administration Act of 1961, and for other purposes," includes two Titles. Title I of the bill would broaden the applicability of the Act by increasing the types of projects eligible for aid under it, including pollution control, waste disposal, and water supply projects. Farmers Home Administration grant and loan authority would increase from $100 million to $300 million. Further, aid available under the Act would include both direct and insured loans in addition to grants; and the Farmers Home Administration would be divided into two adminstrations under a new Assistant Secretary of Agriculture for Rural Development Credit. The two administrations would be the Farm Development Administration and the Rural Enterprise and Community Development Administration. Title I also increases the size of communities eligible under the Act to 35,000 persons from 5,500.

Title II creates a Federal Rural Development Credit System which would make loans available to public and private borrowers in rural areas as defined above. Borrowers would be eligible only if they could not obtain credit elsewhere, but loans could be obtained for a wide range of rural community development projects. The Credit System is modeled on and would not replace the existing Farm Credit System, and although initially capitalized by the Federal Government at $2 billion, it would eventually, under required loan terms, be borrower-owned.

Title II further provides for technical assistance on eligible projects, which would include (Section 710) "water and sewage facilities and air pollution controls" as well as "water, and water distribution, and solid waste disposal." The same section contains authority for research and information gathering.

Amendment 153 to S. 1483 (whose purpose is identical to the following) is a bill "To further provide for the farmer-owned cooperative system of making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and consolidate existing farm credit law to meet current and future rural credit needs, and for other purposes." The bill would provide for loans from basic working capital of $1 billion for, among other things, "supporting private and public development facilities", which means any facility integral to an economic development activity under the bill and accessible to the public. Economic development activities are confined to offices, factories, stores, shipping facilities, and similar activities. A Rural Community Development Bank would administer the loan provisions of the bill, and "provide technical assistance to State and local governments in the preparation and implementation of comprehensive rural community development projects and programs . . ." as well as other services.

Amendment 153 to S. 1483 is much more narrow in scope than S. 2223. For that reason our remarks will address S. 2223 only, since they can be applied to Amendment 153 as appropriate. The purpose of this statement is not to analyze the workability and merits of the financing schemes proposed in those bills but rather to explain in what ways S. 2223 (and to a limited extent Amendment 153 to S. 1483) relates to EPA programs and would affect them. Where necessary those programs will be described.

Our concern with S. 2223 stems from these interrelated considerations: does the proposed legislation cause duplication of effort or increase the number of Federal agencies providing a specific service, or services; would regional planning and pollution-control programs be adversely affected by the introduction of another project-financing agency; and are Federal pollution-control resources used efficiently to achieve maximum effect.

We concur with the July 23, 1971, statement by the Under Secretary of Agriculture and with the President's report pursuant to Title 9 of the Agriculture Act of 1970, both of which support the intent of S. 2223 and Amendment 153 of S. 1483 to provide means to channel more money, both government and private, to rural communities in order to rejuvenate or keep viable their economic bases; but which support or propose broader programs—general and specific revenue sharing—wihch integrate present diverse and often divergent programs to accomplish that intent.

Our major related program is the water pollution control facilities construction program. S. 2223 is related in two ways: the proposed increase of FHA grant and loan authorities; and the additional credit system proposed in Title II.

The FHA provisions increase the types of projects eligible for grants and loans while increasing the funds available; in our view the net effect would be to increase the expenditure of Federal funds for water pollution control facilities by a separate Federal agency. This effect is undesirable for two reasons: the increased division of that particular Federal government function among its agencies when a basic purpose of the Administration has been to consolidate such functions; and the closely related impact of such division on planning and the setting of priorities. We firmly believe that water pollution control programs should be concentrated in this Agency, which was created for the purpose of consolidating Federal pollution control and environmental protection activities; and that only through tight single agency control can limited Federal pollution-control resources be used with greatest efficiency and impact.

Although the amount of Title I funds to be channeled into waste treatment projects is not specified, there would appear to be no real justification for increased funds for this purpose in view of past and proposed waste treatment works programs in EPA described below. (Similar conflicts may exist between the Farmers Home Administration programs and the water and sewer programs of HUD.)

We have requested sufficient funds ($6 billion) to cover the Federal share of all municipal treatment water pollution control needs. Our $12 billion estimate of total needs was determined from information provided by the States, direct contact with major cities, and our own studies and statistical analyses. Our estimates are intended to meet all eligible requests for funds, regardless of how small the community or the request is. In the past the majority of projects (85% of the total made) have been placed in communities of less than 25,000 persons, and 50% in communities of less than 2,500. As of April 30, 1971, out of a total of 11,761 projects, 7,318 were in communities of under 5,000; of these, 5,653 were in communities of 2,500 or less.

In order that rural communities will meet water quality standards, which will be enforced with as much vigor in rural areas as elsewhere throughout the Nation, we have taken into account their present financing needs in the following way: In December 1970, EPA estimated that the cost of constructing sewage treatment facilities in municipalities throughout the Nation to meet water quality standards and enforcement requirements, through FY–1974, was approximately $12 billion as noted above. Given that the approximately 9,000 projects which comprise the $12 billion are spread in communities throughout the country in the same manner as projects previously assisted by EPA, it is estimated that 17% of the $12 billion is for communities with populations of 5,000 or less. Therefore, approximately $2 billion of the construction needed through FY–1974 would be in municipalities with populations of 5,000 or less.

Major differences between the FHA grant program and the EPA program are the level of funding and eligible grant recipients. The FHA basic grant is authorized at 50 percent whereas an EPA grant is limited to 30 percent and can go up to 55 percent only if the State pays 25 percent of the cost of a project and certain water quality requirements are met. FHA grants may be made to "associations, including corporations not operated for profit, and public and quasi-public agencies" whereas EPA grants may be made only to States, municipalities, and interstate and intermunicipal agencies. To discourage "shopping" by prospective grant recipients, FHA has informally agreed to limit its grants to the EPA maximum and to consider only those applicants who have not been able to obtain financing through EPA due to lack of available funds to cover such projects. However, the fractionalization that would result from increasing non-EPA programs in this area is undesirable.

Section 104 of Title I provides that no grant shall be made if the project or community development is inconsistent with any planned development officially approved by a competent authority for the area in which the rural community is located. The section further stipulates that no loan shall be made when the project is inconsistent with multi-jurisdictional planning, and development district area-wide planning. This determination will apparently be made when the applications are reviewed and commented on by the multi-jurisdictional agency, or county or municipal government, having jurisdiction over the area in which the proposed project is located. This change is desirable. EPA and HUD have entered into an agreement standardizing planning requirements for grant assisted projects. It appears that Section 104 can be interpreted as encouraging joint FHA-EPA-HUD standards. However, we would prefer that the bill stipulate such standardization, as well as stipulate Federally-recognized multi-jurisdictional planning authorities. Finally, in line with our principal concerns, we would prefer that any such program be required to be consistent with EPA river basin water pollution control planning.

Similarly, where Title II, Section 710, provides for technical assistance, we are concerned about division and duplication of effort. Technical assistance personnel would cover among other things operation and administration of Federal grant programs, administration development and operation of community facilities, technical data and requirements in the following specific activities related to water: water and sewage facilities and air pollution controls; water, and water distribution, and solid waste disposal; muiti-purpose water development; and comprehensive area planning.

We would point out that most of these are functions already provided for by the Congress in the statutory authorities under which this Agency operates, and that the need for another technical staff in another Federal agency simply does not exist.

The question has arisen as to how water quality standards are set and enforced, particularly in rural areas. Water quality standards were established under the Federal Water Pollution Control Act, as amended. The States, through public hearings, determine the uses to be made of all interstate streams, numerical criteria to protect those uses, and an implementation and enforcement plan. These items comprise the water quality standards which, after adoption through State administrative processes, are submitted to the Environmental Protection Agency for review and approval. This Agency's judgments as to the acceptability of the numerical criteria are based upon scientific and technical recommendations made by the National Technical Advisory Committee on April 1, 1968. Standards are adopted by each State acting individually but they are reviewed for regional consistency.

The enforcement of water quality standards is governed by Section 10(c)(5) of the Federal Act which provides that matter which is discharged into water so as to reduce the quality of such water below the water quality standards may be abated in accordance with the provisions of section 10(g)(1) or (2) of the Federal Act. Those sections in turn authorize the Administrator to request the Attorney General to commence suit against a polluter if the discharges under consideration can be shown to affect health or welfare. The Governor's consent is required where the pollution effect is intrastate. At least 180 days before any abatement action is initiated under subsection 10(g)(1) or (g)(2), the Administrator is required to notify the violators and other interested parties of the violation.

No distinction is made between rural and non-rural areas in setting or enforcing water quality standards.

The impact of establishing water quality standards for streams in rural areas may be significant depending upon the condition of the water prior to setting the standards and what degree of water quality is desired by the people in the area who determined the use to be made of the water. In cases where relatively common waste treatment processes need to be upgraded or treatment plants constructed, the impact may not be great.

This picture may change in areas where the water pollution problem is caused by run-offs from feedlots, fertilization practices, or other agricultural water uses. Control of pollution from such non-point sources is more difficult and in some instances not practicable given existing technology.

Finally it has been asked what a waste treatment facility for a typical rural community would cost. A common type of water pollution control facility constructed for communities with populations near 5,000 is an Extended Aeration plant. Given an Extended Aeration plant with a design population of 5,000, the following estimates apply:

Cost of constructing the plant	[1] $386,000
Cost of constructing the interceptor sewer	[1] 190,000
Cost of engineering services for both the plant and sewer	58,000
Annual operation and maintenance cost	22,000

[1] Contract cost only. Interest and amortization costs not included. Should a collection sewer system which is ineligible for EPA grant assistance also be needed, the estimated cost of constructing one is $803,000.

In summary, we want to emphasize first that we do not oppose efforts to channel to rural areas essential financial resources which can be applied to the betterment of those areas by re-vitalizing the rural economy. However, for the reasons advanced in the foregoing statement, we feel that provisions of the proposed legislation are undesirable in view of this Agency's programs.

We are advised by the Office of Management and Budget that there is no objection to the presentation of this report from the Administration's standpoint.

Sincerely yours,

William D. Ruckelshaus,
Administrator.

AMENDMENTS TO S. 2223 PROPOSED BY THE NATIONAL GOVERNOR'S CONFERENCE, AND COMPARISON BETWEEN PROPOSED AMENDMENTS AND S. 2223

1. On page 16, line 7; (Section 301) delete the words "and any instrumentality of a State, county, municipality, or any unit of local general government"

2. On page 18, line 23; (Section 401) delete the words "and any county, municipality, or other unit of local general government"

3. On page 46, line -19; (Section 606) delete the words "public and quasi-public bodies"

4. On page 47, line 6; (Section 606) delete the word "municipalities"

5. On page 71, beginning on line 18; (Section 709(a)) delete all of Paragraphs 709(a)(1) and 709(a)(2); and on page 72, line 17 delete the reference "(3)"

6. On page 73, beginning on line 12; (Section 709(e)) delete all of subsection 709(e) and renumber subsections (f), (g) and (h) as subsections (e), (f) and (g) respectively

7. On page 101, line 10; (Section 1008) delete all of item "2" and renumber item "3" as item "2".

8. On page 86, line 14; (after Section 807) renumber subtitles "H" and "I" as subtitles "I" and "J" respectively and insert a new subtitle "H" as follows:

SUBTITLE H—TAXABLE BONDS FOR RURAL DEVELOPMENT

SEC. 901. *Election to issue taxable bonds.*—(*a*) The Secretary of Agriculture or his delegate shall pay to any State, instrumentality of a State or local general government which elects to issue obligations for a rural development purpose in a rural area a fixed percentage of fifty per cent of the interest yield on such obligations provided that no payment shall be made hereunder in the case of any bonds or other securities the interest income from which is exempt from federal taxation.

(*b*) The election described in subsection (a) of this section shall be made (subject to such conditions of notification and certification as the Secretary or his delegate prescribes) with respect to each issue of obligations to which it is to apply. An election with respect to any issue once made shall be irrevocable.

(*c*) For purposes of this section, the interest yield on any issue of obligations shall be determined immediately after such obligations are issued.

(*d*) Payment of any interest required pursuant to subsection (a) shall be made by the Secretary of Agriculture or his delegate not later than the time at which the interest payment on the obligation is required to be made by the issuer.

(*e*) At the request of the issuer, the liability of the United States under this section to pay interest to the holders of an issue of obligations shall be made through assumption by the United States of the obligations to pay a separate set of interest coupons issued with the obligations.

(*f*) This section shall apply only to obligations which, but for an election under subsection (a) of this section, would be obligations to which section 103(a)(1) of the Internal Revenue Code of 1954 applies.

(*g*) This section shall apply only to obligations issued after the date of the enactment of this section.

(*h*) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section. Any sums so appropriated shall remain available until expended and shall be deemed permanent annual appropriations.

SEC. 902. *Assistance to State and local governments issuing obligations.*—(*a*) The Rural Development Credit System may provide technical assistance to any State, instrumentality of a State or local general governments issuing obligations under this subtitle and may make available to them such financial related services appropriate to the issuance of such obligations as is feasible.

(*b*) In the case of technical assistance provided by District Rural Development Credit Agencies such assistance may include the marketing or issuance of obligations on behalf of the State, instrumentality of the State or local general governments within the geographic jurisdiction of each respective District Rural Development Credit Agency.

COMPARISON BETWEEN PROPOSED AMENDMENTS AND S. 2223

The amendments strike out various references to state and local governments in Title II of S. 2223 and add a new subtitle to Title II providing for a fixed interest subsidy on taxable bonds issued by States and localities for rural development purposes.

DIFFERENCES

1. The major difference between S. 2223 and the proposed amendments is that the proposed amendments provide that the Secretary of Agriculture shall pay to States and localities which issue taxable obligations a fixed percentage of 50 per cent of the interest yield on such obligations and deletes provisions for public bodies to receive loans through the Rural Development Credit System. This has the effect of reserving the funds which would be available through the Rural Development Credit System to private borrowers and providing an alternative market in which States and localities could issue obligations for rural development purposes.

2. Amendment number one has the effect of limiting the terms "borrower" and "potential borrower" to individuals, partnerships, cooperatives, corporations, and non-profit associations.

3. Amendment number two limits Participating Rural Development Financial Institutions to any National or State banks, savings institutions, credit unions, or other financial institutions making loans in rural areas for rural development purposes.

4. Amendments numbers three and four remove public and quasi-public bodies and municipalities from the list of institutions eligible to receive services authorized by Title II directly or through District Rural Development Credit Agencies.

5. Amendments numbers five and six would delete references under "special powers" of Rural Development Credit Agencies which authorize the purchase of obligations of State or local governments and which authorize the making or guaranteeing of loans to State and local governments. Reference to the Federal Rural Development Credit Agency when undertaking to provide assistance to state or local governments for construction of a project for which any other department or agency of the Federal Government will also provide funds is deleted.

6. Amendment number seven would delete the requirement that the income from obligations issued by any state government and purchased by the Rural Development Credit System would be subject to federal, state and local taxation.

7. Amendment number eight would require the Secretary of Agriculture to pay a fixed percentage of fifty percent of the interest yield on taxable obligations issued by state or local governments for a rural development purpose in a rural area. This has the effect of making available to state and local governments an alternative market—the taxable bond market—to the existing tax-exempt bond market. The amendment would also provide that District Rural Development Credit Agencies may accumulate and market on behalf of state and local governments taxable obligations for a rural development purpose.

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